



Emfuleni Local Municipality
Annual Financial Statements
for the year ended 30 June 2019

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

General Information

Accounting Officer	D Nkoane
Auditors	Auditor-General of South Africa
Primary banking institution	Standard bank of South Africa
Registered office	Cnr Frikkie Meyer Boulevard & Klasie Havenga Street Vanderbijlpark 1900
Business address	Cnr Frikkie Meyer Boulevard & Klasie Havenga Street Vanderbijlpark 1900
Postal address	P.O Box 3 Vanderbijlpark 1900
Fax number	
Email	
Website	

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

	Page
Accounting Officer's responsibilities and approval	3
Statement of financial position	4
Statement of financial performance	5
Statement of changes in net assets	6
Cash flow statement	7
Statement of comparison of budget and actual amounts	8 - 11
Accounting policies	14 - 31
Notes to the annual financial statements	32 - 86

ELM	Emfuleni Local Municipality
DBSA	Development Bank of South Africa
GRAP	Standards of Generally Recognised Accounting Practice
RUL	Remaining Useful Life
EUL	Estimated Useful Life
AUC	Asset under construction
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Local Government : Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
AFS	Annual Financial Statements
PAYE	Pay As You Earn
UIF	Unemployment Insurance Fund

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Officer's responsibilities and approval

I am responsible for the preparation of these financial statements which are set out on pages 5 to 90, in terms of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of councillors as disclosed in Note 24 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearer's act, 1998 (Act no. 20 of 1998) and the Minister of Cooperative Governance and Traditional Affairs determination in accordance with this Act.

D Nkoane
Acting Municipal Manager

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of financial position as at 30 June 2019

	Note(s)	2019 R	2018 Restated* R
Assets			
Current assets			
Cash and cash equivalents	2	217,508,396	67,452,861
Trade and other receivables from exchange transactions	3	422,847,834	308,691,122
Trade and other receivables from non-exchange transactions	4	347,322,862	275,172,727
Inventories	5	23,147,571	23,574,489
VAT receivable	6	311,859,358	312,445,343
		1,322,686,021	987,336,542
Non-current assets			
Property, plant and equipment	7	10,344,633,857	10,477,173,084
Investment property	8	972,604,119	962,368,300
Intangible assets	9	21,557,747	23,142,700
Heritage assets	10	57,016	57,016
Sanlam shares		21,103	18,919
		11,338,873,842	11,462,760,019
Total Assets		12,661,559,863	12,450,096,561
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	11	3,561,844,877	2,754,212,647
Unspent conditional grants and receipts	13	53,990,333	22,969,137
Borrowings	14	3,681,333	3,162,631
Finance lease	15	2,341,606	7,824,681
Provision	16	13,885,861	13,885,861
Employee benefit obligation	37	23,555,301	21,971,964
		3,659,299,311	2,824,026,921
Non-current liabilities			
Consumer deposits	12	52,527,882	51,309,073
Borrowings	14	2,061,807	5,743,139
Provision	16	128,195,185	133,276,369
Finance lease	15	-	3,421,738
Employee benefit obligation		205,626,459	192,793,075
		388,411,333	386,543,394
Total liabilities		4,047,710,644	3,210,570,315
Net Assets		8,613,849,219	9,239,526,246
Accumulated surplus		8,613,849,219	9,239,526,246

* See Note

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Performance

	Note(s)	2019 R	2018 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	17	4,211,460,423	3,786,591,915
Rental of facilities and equipment	18	17,272,307	16,409,849
Trade and other licenses		173,066	189,299
Actuarial gain		-	6,937,081
Other income	20	91,120,376	101,999,417
Interest income	19	85,379,215	70,014,644
Fair value adjustments		32,892,178	29,842,266
Total revenue from exchange transactions		4,438,297,565	4,011,984,471
Revenue from non-exchange transactions			
Property rates	21	856,165,255	799,015,311
Donations		77,183,376	8,781,124
Fines	23	199,530,584	347,646,120
Transfer revenue			
Government grants & subsidies	22	944,388,921	921,513,185
Total revenue from non-exchange transactions		2,077,268,136	2,076,955,740
Total revenue		6,515,565,701	6,088,940,211
Expenditure			
Employee related costs	24	(1,043,119,795)	(1,023,257,805)
Remuneration of councillors	25	(66,198,608)	(55,234,346)
Depreciation and impairment		(368,939,607)	(386,872,859)
Finance costs	26	(357,409,020)	(133,381,634)
Debt Impairment		(1,329,362,660)	(1,161,360,330)
(Loss)/Gain on sale of assets		(23,582,654)	(3,421,120)
Repairs and maintenance		(106,332,160)	(63,740,225)
Bulk purchases	27	(2,510,657,662)	(2,432,273,179)
Contracted services		(245,145,594)	(167,280,235)
Imputed interest		(1,874,487)	8,569,855
Actuarial losses		(11,129,917)	-
General expenses	28	(1,068,920,716)	(1,347,969,976)
Total expenditure		(7,132,672,880)	(6,766,221,854)
(Deficit)/surplus for the year		(617,107,179)	(677,281,643)

* See Note

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of changes in net assets

	Insurance reserve R	Accumulated surplus R	Total net assets R
Balance at 01 July 2017 as restated*	2,139,552	9,914,668,337	9,916,807,889
Changes in net assets			
Other 1	(2,139,552)	2,139,552	-
Net transfers in net assets	(2,139,552)	2,139,552	-
Deficit for the year	-	(677,281,643)	(677,281,643)
Total recognised income and expenses for the year	(2,139,552)	(675,142,091)	(677,281,643)
Total changes	(2,139,552)	(675,142,091)	(677,281,643)
Restated* Balance at 01 July 2018	-	9,230,956,398	9,230,956,398
Changes in net assets			
Deficit for the year	-	(617,107,179)	(617,107,179)
Total changes	-	(617,107,179)	(617,107,179)
Balance at 30 June 2019	-	8,613,849,219	8,613,849,219

* See Note

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Cash flow statement

	Note(s)	2019 R	2018 Restated* R
Cash flows from operating activities			
Receipts			
Sale of goods and services		3,089,466,879	3,061,125,870
Grants		975,410,117	923,752,224
Interest income		69,174,999	18,060,097
Other receipts		787,375,828	808,015,244
		<u>4,921,427,823</u>	<u>4,810,953,435</u>
Payments			
Employee costs		(1,094,901,682)	(1,073,488,082)
Suppliers		(2,055,950,754)	(1,932,068,416)
Finance costs		(327,803,396)	(109,039,982)
Other payments		(1,096,801,433)	(1,354,214,004)
		<u>(4,575,457,265)</u>	<u>(4,468,810,484)</u>
Net cash flows from operating activities	29	<u>345,970,558</u>	<u>342,142,951</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(193,780,040)	(242,455,689)
Proceeds from sale of assets	7	3,954,792	564,446
Purchase of intangible assets	9	(724,215)	(6,954,614)
Net cash flows from investing activities		<u>(190,549,463)</u>	<u>(248,845,857)</u>
Cash flows from financing activities			
Repayment of borrowings		(3,681,332)	(2,719,829)
Movement in consumer deposits		1,218,809	4,337,954
Finance lease payments		(3,421,738)	(7,248,826)
Net cash flows from financing activities		<u>(5,365,560)</u>	<u>(6,073,503)</u>
Net increase/(decrease) in cash and cash equivalents		150,055,535	87,223,591
Cash and cash equivalents at the beginning of the year		67,452,861	(19,770,730)
Cash and cash equivalents at the end of the year	2	<u>217,508,396</u>	<u>67,452,861</u>

* See Note

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of comparison of budget and actual amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	3,682,336,302	-	3,682,336,302	4,211,460,423	529,124,121	Note 39
Rental of facilities and equipment	22,333,092	-	22,333,092	17,272,307	(5,060,785)	Note 39
Trade and other licenses	145,199	-	145,199	173,066	27,867	Note 39
Other income	53,373,958	-	53,373,958	91,120,376	37,746,418	Note 39
Interest received	56,384,943	-	56,384,943	85,379,215	28,994,272	Note 39
Total revenue from exchange transactions	3,814,573,494	-	3,814,573,494	4,405,405,387	590,831,893	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	816,619,505	-	816,619,505	856,165,255	39,545,750	Note 39
Donations	-	-	-	77,183,376	77,183,376	Note 39
Fines	126,214,254	-	126,214,254	199,530,584	73,316,330	Note 39
Transfer revenue						
Government grants & subsidies	1,028,864,767	-	1,028,864,767	944,388,921	(84,475,846)	Note 39
Total revenue from non-exchange transactions	1,971,698,526	-	1,971,698,526	2,077,268,136	105,569,610	
Total revenue	5,786,272,020	-	5,786,272,020	6,482,673,523	696,401,503	
Expenditure						
Personnel	(1,418,701,994)	-	(1,418,701,994)	(1,043,119,795)	375,582,199	
Remuneration of councillors	(57,358,497)	-	(57,358,497)	(66,198,608)	(8,840,111)	Note 39
Depreciation and amortisation	(428,330,102)	428,330,102	-	(368,939,607)	(368,939,607)	Note 39
Finance costs	(4,326,091)	-	(4,326,091)	(357,409,020)	(353,082,929)	Note 39
Debt Impairment	-	-	-	(1,329,362,660)	(1,329,362,660)	Note 39
(Loss)/gain on disposal of assets	-	-	-	(23,582,654)	(23,582,654)	Note 39
Repairs and maintenance	(127,713,799)	-	(127,713,799)	(106,332,160)	21,381,639	Note 39
Bulk purchases	(2,251,495,530)	-	(2,251,495,530)	(2,510,657,662)	(259,162,132)	Note 39
Contracted Services	(192,748,400)	-	(192,748,400)	(245,145,594)	(52,397,194)	Note 39
Imputed interest	-	-	-	(1,874,487)	(1,874,487)	Note 39
General Expenses	(1,020,808,200)	-	(1,020,808,200)	(1,068,920,716)	(48,112,516)	Note 39
Total expenditure	(5,501,482,613)	428,330,102	(5,073,152,511)	(7,121,542,963)	(2,048,390,452)	
Operating deficit	284,789,407	428,330,102	713,119,509	(638,869,440)	(1,351,988,949)	
Fair value adjustments	-	-	-	32,892,178	32,892,178	Note 39
Actuarial gains/losses	-	-	-	(11,129,917)	(11,129,917)	Note 39
	-	-	-	21,762,261	21,762,261	
Deficit before taxation	284,789,407	428,330,102	713,119,509	(617,107,179)	(1,330,226,688)	
Actual amount on comparable basis as presented in the budget and actual comparative statement	284,789,407	428,330,102	713,119,509	(617,107,179)	(1,330,226,688)	

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of comparison of budget and actual amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of financial position						
Assets						
Current assets						
Inventories	80,758,358	-	80,758,358	23,147,571	(57,610,787)	
Trade and other receivables from non-exchange transactions	1,237,142,979	-	1,237,142,979	347,322,862	(889,820,117)	Note 39
VAT receivable	312,288,792	-	312,288,792	311,859,358	(429,434)	
Trade and other receivables from exchange transactions	2,440,227,485	-	2,440,227,485	422,847,834	(2,017,379,651)	Note 39
Cash and cash equivalents	21,121,575	-	21,121,575	217,508,396	196,386,821	Note 39
	4,091,539,189	-	4,091,539,189	1,322,686,021	(2,768,853,168)	
Non-current assets						
Investment property	-	-	-	972,604,119	972,604,119	Note 39
Property, plant and equipment	9,491,982,240	-	9,491,982,240	10,344,633,857	852,651,617	Note 39
Intangible assets	25,454,736	-	25,454,736	21,557,747	(3,896,989)	
Heritage assets	-	-	-	57,016	57,016	
Sanlam shares	-	-	-	21,103	21,103	Note 39
	9,517,436,976	-	9,517,436,976	11,338,873,842	1,821,436,866	
Total Assets	13,608,976,165	-	13,608,976,165	12,661,559,863	(947,416,302)	
Liabilities						
Current liabilities						
Borrowings	-	-	-	3,681,333	3,681,333	Note 39
Finance lease	-	-	-	2,341,606	2,341,606	Note 39
Trade and other payables from exchange transactions	281,583,899	-	281,583,899	3,561,844,876	3,280,260,977	Note 39
Unspent conditional grants and receipts	19,494,958	-	19,494,958	53,990,333	34,495,375	Note 39
Provision	-	-	-	13,885,861	13,885,861	Note 39
Employee benefit obligation	-	-	-	23,555,301	23,555,301	
	301,078,857	-	301,078,857	3,659,299,310	3,358,220,453	
Non-current liabilities						
Borrowings	11,570,320	-	11,570,320	2,061,807	(9,508,513)	Note 39
Provision	112,824,941	-	112,824,941	128,195,185	15,370,244	Note 39
Consumer deposits	34,503,841	-	34,503,841	52,527,882	18,024,041	Note 39
Employee benefit obligation	154,142,919	-	154,142,919	205,626,459	51,483,540	Note 39
	313,042,021	-	313,042,021	388,411,333	75,369,312	
Total liabilities	614,120,878	-	614,120,878	4,047,710,643	3,433,589,765	
Net Assets	12,994,855,287	-	12,994,855,287	8,613,849,220	(4,381,006,067)	
Net Assets						
Reserves						
Insurance reserve	28,352,474	-	28,352,474	-	(28,352,474)	Note 39
Accumulated surplus	12,966,502,813	-	12,966,502,813	8,613,849,220	(4,352,653,593)	

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of comparison of budget and actual amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Total Net Assets	12,994,855,287		- 12,994,855,287	8,613,849,220	(4,381,006,067)	

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of comparison of budget and actual amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Cash Flow Statement

Cash flows from financing activities

Increase(decrease) in consumer deposit	-	1,155,000	1,155,000	-	(1,155,000)
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Net cash flows from financing activities

Net increase/(decrease) in cash and cash equivalents	309,633,000	(701,100,000)	(391,467,000)	174,451,567	565,918,567
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Cash and cash equivalents at the end of the year	309,633,000	(701,100,000)	(391,467,000)	174,451,567	565,918,567
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Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2019											
Financial Performance											
Property rates	-	-	-	-	-	-	856,165,255	-	856,165,255	DIV/0 %	DIV/0 %
Service charges	-	-	-	-	-	-	4,211,460,423	-	4,211,460,423	DIV/0 %	DIV/0 %
Investment revenue	-	-	-	-	-	-	85,379,215	-	85,379,215	DIV/0 %	DIV/0 %
Transfers recognised - operational	-	-	-	-	-	-	781,798,579	-	781,798,579	DIV/0 %	DIV/0 %
Other own revenue	-	-	-	-	-	-	418,171,887	-	418,171,887	DIV/0 %	DIV/0 %
Total revenue (excluding capital transfers and contributions)	-	-	-	-	-	-	6,352,975,359	-	6,352,975,359	DIV/0 %	DIV/0 %
Employee costs	-	-	-	-	-	-	(1,043,119,795)	-	(1,043,119,795)	DIV/0 %	DIV/0 %
Remuneration of councillors	-	-	-	-	-	-	(66,198,608)	-	(66,198,608)	DIV/0 %	DIV/0 %
Debt impairment	-	-	-	-	-	-	(1,329,362,660)	-	(1,329,362,660)	DIV/0 %	DIV/0 %
Depreciation and asset impairment	-	-	-	-	-	-	(368,939,607)	-	(368,939,607)	DIV/0 %	DIV/0 %
Finance charges	-	-	-	-	-	-	(357,409,020)	-	(357,409,020)	DIV/0 %	DIV/0 %
Materials and bulk purchases	-	-	-	-	-	-	(2,510,657,662)	-	(2,510,657,662)	DIV/0 %	DIV/0 %
Transfers and grants	-	-	-	-	-	-	(1,874,487)	-	(1,874,487)	DIV/0 %	DIV/0 %
Other expenditure	-	-	-	-	-	-	(1,455,111,041)	-	(1,455,111,041)	DIV/0 %	DIV/0 %
Total expenditure	-	-	-	-	-	-	(7,132,672,880)	-	(7,132,672,880)	DIV/0 %	DIV/0 %
Surplus/(Deficit)	-	-	-	-	-	-	(779,697,521)	-	(779,697,521)	DIV/0 %	DIV/0 %

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	-	-	-	-	-	-	162,590,342		162,590,342	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	-	-	-	-	-	-	(617,107,179)		(617,107,179)	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	-	-	-	-	-	-	(617,107,179)		(617,107,179)	DIV/0 %	DIV/0 %
Capital expenditure and funds sources											
Total capital expenditure	-	-	-	-	-	-	129,865,824		129,865,824	DIV/0 %	DIV/0 %

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1. Presentation of annual financial statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise. The details of any changes in the accounting policies are explained in the relevant policy.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation

The preparation of annual financial statements in conformity with standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates. Significant judgements and underlying assumptions are reviewed on a constant basis.

The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period.

Significant judgement include:

Trade receivables and other receivables

The municipality assesses its trade and other receivables for impairment at the end of each quarter. In determining whether an impairment loss should be recorded in surplus or deficit, the management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and other receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The municipality reviews and tests the carrying value of assets when events and changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest value for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

Provisions

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Assumptions were used in determining the provision for rehabilitation of landfill sites. Landfill areas are rehabilitated over years and assumptions were made that the areas may stay the same in size for a number of years.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1.2 Significant judgements and sources of estimation (continued)

Contingent liabilities

Contingencies disclosed in the current year required estimates and judgements. Additional disclosure of these contingent liabilities is included in the relevant note.

Useful lives of assets

The municipality's management determines the estimated useful lives and related depreciation charges for assets. These norms are based on South African Institution of Civil Engineering norms. Management will decrease the depreciation charge where useful lives are more than previously estimated useful lives.

Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The discount rate was set as the nominal and zero curves as at 30 June 2017 supplied by the JSE and the CPI assumptions at each relevant time period.

Other key assumptions for pension obligations are based on current market conditions.

Effective interest rate

The municipality used the prime interest rate plus 2% to discount future cash flows as at 30 June 2017. This rate is similar to the interest rate levied on arrear consumer accounts.

Impairment of receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments due and an assessment of their ability to make payments based on their credit worthiness. This was performed per service identifiable category across all classes of debtors.

Allowance for doubtful debts

Impairment loss is recognised in surplus and deficit when there is objective evidence that debtors are impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition

Property Plant and Equipment

The useful life of property plant and equipment are based on management's estimation. Infrastructure assets useful life are based on technical knowledge of the infrastructure types and service requirements. For other assets and buildings, management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation where appropriate.

Other

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses are recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Where the classification of an investment property is based on management's judgement, the following criteria have been applied to distinguish investment properties from owner-occupied property or property held for resale

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1.3 Investment property (continued)

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties.
- Land held for a currently undetermined future use;
- A building owned (or held by under a finance lease) and leased out under one or more operating leases;
- A building that is vacant but is held to be leased out under one or more operating leases.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note).

Initial measurement

Investment property is initially recognised at cost.

Subsequent measurement

Subsequently investment property is recognised at fair value and fair value of investment property reflects market conditions at the reporting date.

Where investment property is acquired through a none exchanged transaction, its cost is its fair value as at the date of acquisition. A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Compensation from third parties for investment property that was impaired, lost or given up, is recognised in surplus or deficit when the compensation becomes receivable.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Derecognition

Investment property is derecognised when it is disposed or when there are no further economic benefits or service potential expected from the use of the investment property. A gain or loss arising from the disposal or retirement of an item of investment property is determined as difference between the proceeds and the carrying value and is recognised in the statement of financial performance.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and if the cost or fair value of the item can be measured reliably

Asset classification

The criteria used for determining significant asset components are:

- Any component with a useful life of longer than 12 months with economic or service potential;
- The value of the component itself can be fairly accurately determined;
- Its useful life can be distinguished from that of the parent asset;
- The value of the component is material in relation to its parent asset;
- It carries a significant risk profile;
- It is a maintenance significant item, and
- For which there may be specific requirements for significant statutory tests or licensing.

Initial measurement

Property, plant and equipment is initially measured at cost.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1.4 Property, plant and equipment (continued)

Assets acquired by grant or donation are newly identified assets.

Property, plant and equipment are measured at fair value at the date of acquisition, where assets have been acquired by donation or grant and for assets that are newly identified through formal assets verification procedures for which cost records are not available or not reliable at the date of acquisition

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Subsequent measurement

After initial recognition property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Assets under construction are carried at cost.

Enhancement to property, plant and equipment do not qualify as assets unless these extend the useful life of the enhanced property, plant and equipment. Day to day servicing cost of an assets are not recognised in the carrying amount of an item of property, plant and equipment.

Major spare parts, standby equipment which are expected to be used for more than one period are included in the property, plant and equipment. In addition, spare parts and standby equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Depreciation is calculated on the depreciable amount (Cost less residual value), using the straight line method over the estimated useful lives of the assets. The annual depreciation rates are based on the following estimated asset lives:

Item	Depreciation method	Average useful life
Infrastructure		
• Roads and paving		20
• Electricity		50-60
• Water		15-20
• Sewerage		15-20
• Housing		30
Community assets		
• Buildings		30
• Recreational facilities		20-30
• Security		5

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1.4 Property, plant and equipment (continued)

Other assets

• Buildings	30
• Specialised vehicle	10
• Other vehicles	5
• Office equipment	3-7
• Furniture and fittings	7-10
• Water craft	15
• Bins and containers	5
• Specialised plant and equipment	10-15
• Other items of plant and equipment	2-5
• Landfill sites	30-55
• Computer software	3-5
• Art, paintings, sculptures and ornaments	10

An asset only has a residual value when the useful life of the asset (the period the asset is used or available for use) is shorter than the economic life of the asset (the period the asset is used or available for use by all users or owners of the asset). As the municipality plans to use the assets for the entire economic lives, the residual value is considered to be negligible or even zero.

Land is not depreciated as it is deemed to have an indefinite life.

The residual value and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The municipality is utilizing the straight-line depreciation method.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount it is written down immediately to its recoverable amount and an impairment loss is charged to surplus and deficit.

Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.5 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes are classified and recognised as intangible assets.

Initial measurement

Intangible assets are initially recognised at cost.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1.5 Intangible assets (continued)

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

If an intangible asset is acquired through a non-exchange transaction, the cost shall be its fair value as at the date of its acquisition.

Subsequent measurement

After the initial recognition intangible assets with finite useful lives are carried at cost less accumulated amortisation.

Computer software is capitalised to computer equipment where it forms an integral part of computer equipment.

Internally generated intangible assets

Websites

Initial recognition.

Website are internally generated intangible assets that are initially recognised at the value of improvement/development costs in terms of IGRAP16.

The cost of an internally generated intangible asset (website) is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. After initial recognition, and intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment loss.

Subsequent measurement

After initial measurement, websites will be carried at cost less ant accumulated amortisation and impairment loss.

Computer software is capitalised to computer equipment where it forms an integral part of computer equipment.

An intangible assets arising from development(or from development phase of an internal project) is recognised when:

- It is technically feasible to complete the assets so that it will be available for use or sale;
- there is an intention to complete and use or cell;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there is available technical, financial and other resources to complete the development and to use or sell the assets;
- the expenditure attributable to the assets during its development can be measured reliably.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to general net cash inflows or service potential. Amortisation is not provided for these intangible assets but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

For intangible assets with a finite useful life the residual value is always deemed zero unless:

- A third party has committed to purchase the asset at the end of the useful life;
- There is an active market for the asset and
 - a) the residual value can be determined by reference to that market; and
 - b) it is probable that such market will exist at the end of the asset's useful life.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1.5 Intangible assets (continued)

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, internally generated	3-5 years
Computer software, other	3-5 years
Intangible assets under development	3-5 years
Servitude	Indefinite

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.6 Heritage assets

Heritage assets are defined as any asset that has a cultural, environmental, historical, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

A heritage asset is recognised as an asset if it is probable that economic benefits or service potential associated with the asset will flow to the Municipality, and the cost or fair value of the asset can be measured reliably.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in a municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset. Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Recognition and measurement

Initial recognition

A heritage asset that qualifies for recognition as an asset, is measured at its cost. Where a heritage asset is acquired through a non-exchange transaction, its cost is deemed to be its fair value as at the date of acquisition.

The fair value of a heritage asset can be determined from market-based evidence determined by appraisal. An appraisal of the value of the asset is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification.

Subsequent measurement

After recognition as an asset, heritage assets are carried at its cost less any accumulated impairment losses.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1.6 Heritage assets (continued)

Depreciation and Impairment

Heritage assets are not depreciated.

Heritage assets are reviewed at each reporting date for any indication of impairment.

An impairment is reversed only to the extent that the asset's carrying amount that would have been determined had no impairment been recognised.

Derecognition

Heritage assets are derecognised when it is disposed or when there are no further economic benefits expected from the use of the heritage assets. The gain or loss arising from the disposal or retirement of heritage asset is determined as a difference between the sales proceeds and the carrying value of the heritage assets and is recognised in the statement of financial performance.

1.7 Financial instruments

Classification

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, the municipality considers the substance of the contract and not just the legal form.

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<u>Class</u>	<u>Category</u>
Cash and cash equivalents	Financial asset at amortised cost
Trade and other receivables from exchange transactions	Financial asset at amortised cost
Consumer debtors	Financial asset at amortised cost
Long term receivables	Financial asset at amortised cost
Investments	Financial asset at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<u>Class</u>	<u>Category</u>
Borrowings	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition and measurement

Financial assets and financial liabilities are initially recognised at fair value. Where the municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transaction costs are included in the cost of the asset or liability.

Financial assets and financial liabilities are subsequently measured at amortised cost.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or non-collectability.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1.7 Financial instruments (continued)

Impairment of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor;
- restructuring of an amount due to the municipality on terms that the municipality would not consider otherwise, indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers in the municipality;
- economic conditions that correlate with defaults, or
- the disappearance of an active market for a security

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

The municipality de-recognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the municipality is recognised as a separate asset or liability.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is de-recognised or impaired, or through the amortisation process.

Trade and other receivables

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

After the calculations for irrecoverable debt, the movement in the impairment allowance, is recognized in the Statement of Financial Performance : impairment gains or losses. If a decrease in the value, a gain is recognised and if there is an increase, a loss is recognised.

Bad debt written off, following a council resolution, is written off in the Statement of Financial Performance, as a line item: Bad debt written off.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1.7 Financial instruments (continued)

Trade and other payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash includes cash on hand, cash held with banks, and call deposits. Cash equivalents are short-term highly liquid investments with a maturity of three months or less from inception, readily convertible to cash without significant change in value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories include consumable stores, maintenance materials, spare parts for the plant and equipment, work in progress, water, the ash and land and property held for sale.

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1.9 Inventories (continued)

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Unsold properties for the purpose of resale are accounted for as inventory. The fair value was determined by the appointed Municipal Valuer per the Valuation Roll that came into effect on 1 July 2014. Direct costs are accumulated for each separately identifiable development. Costs also include a portion of overhead cost, if the cost occur frequently and are separately identifiable.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. Assets that generate a commercial return are those that generate positive cashflows which are expected to be significantly higher than the cost of the assets. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Assets that are subject to impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered.

An impairment loss is recognised if the recoverable amount of an asset is less than the carrying amount. The impairment loss is recognised as an expense in the statement of financial performance immediately. The recoverable amount of the asset is the higher of asset fair value less cost of disposal and its value in use.

The fair value represents the amount obtainable from the sale in an arm's length transaction between knowledgeable and willing parties.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the assets belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets. An impairment loss is recognised whenever the recoverable amount of a cash-generating unit is less than its carrying amount.

The impairment loss is allocated to reduce the carrying amount of the asset. The carrying amount of individual assets are not reduced below the higher of its value in use, zero or fair value less cost of disposal.

Reversal of impairment loss

A previously recognised impairment loss related to assets is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised in prior periods.

After the recognition of an impairment loss, any depreciation charge for the asset is adjusted for future periods to allocate the assets' revised carrying amount on a systematic basis over its remaining useful life.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1.10 Impairment of cash-generating assets (continued)

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Impairment of non-cash-generating assets

Non-cash-generating assets are assets where its objective is not to use the asset to generate a commercial return but to deliver services.

Identification

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1.11 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Other post retirement obligations

The municipality provides post-retirement health care benefits to retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations using the projected unit credit method.

Long term employee benefits

The municipality provides long service awards. Awards are accrued over the period of employment. Independent qualified actuaries carry out valuations of these awards.

1.13 Provisions and contingencies

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

The discount rate is a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1.13 Provisions and contingencies (continued)

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

1.14 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 Revenue from exchange transactions

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by:

- surveys of work performed;
- services performed to date as a percentage of total services to be performed; and
- the proportion that costs incurred to date bear to the total estimated costs of the transaction

Revenue arising from application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1.15 Revenue from exchange transactions (continued)

Interest and dividends

Interest is recognised in surplus or deficit using the effective interest rate method.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Prepaid electricity estimation

The electricity is made available to the vendor and the vendor only pays over to the municipality once the electricity is sold, resulting in no electricity on hand at year end.

It is not possible to provide any statistics regarding the electricity smart meters as a process of installing the CIU (Communication device) takes a long time. After the installation of the communication device as well as the correcting of the consumer account, it will be possible to measure electricity on hand at year end.

1.16 Revenue from non-exchange transactions

Measurement

Revenue is measured at the fair value of the asset recorded less any liability recognised.

Rates, including collection charges and penalties interest

Property rates are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria of an asset.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Fines constitute both spot fines and summonses.

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Where the amount due by a particular offender is specified on the notice, summons or equivalent document and the offender is informed of any reductions following certain processes within the municipality's discretion (i.e. it can decide on the reductions) these are estimated when measuring the asset (receivable) and the amount of revenue to be recognised. Any variations in the amount of reductions estimated are treated as a change in the estimated revenue and are accounted for as a change in accounting estimate.

Government grants

Government grants are recognised to the extent that the asset can be recognised less any liability for conditions imposed in terms of the grant.

Grants without any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equaling the fair value of the asset received.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1.16 Revenue from non-exchange transactions (continued)

Other grants and donations

Where there is conditions attached to the grant, transfer or donation that gives rise to a liability at initial recognition, that liability is transferred to revenue as and when conditions attached to the grant are met.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.17 Gifts and donations, including goods in kind

Gifts and donations, including goods in kind are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in kind

Services in kind are recognised where they are significant to the municipality's operations or service delivery objectives.

If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, only the nature and type of services in-kind received during the reporting period is disclosed.

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred and borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of the assets.

1.19 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason of reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

Where there has been a change in the accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Where unauthorised expenditure is not approved, it is recovered from the responsible person and the amount received is accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1.22 Irregular expenditure

Irregular expenditure is expenditure, other than unauthorised expenditure, incurred in contravention of, or that is not in accordance with a requirement of any applicable legislation.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by National Treasury or the relevant authority, is recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account is created if such a person is liable in law. Immediate steps are thereafter taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register is updated accordingly.

1.23 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of Generally Accepted Accounting Practices (GRAP).

1.24 Budget information

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the statement of comparison of budget and actual amounts.

Municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality provides information on whether resources were obtained and used in accordance with the legally adopted budget. The budget information is based on the same period as the actual amount.

1.25 Related parties and related party transactions

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties include:

Key management personnel, close members of the family of key management personnel and councillors.

Key management personnel include all directors or members of the municipal council of the reporting entity where that council has jurisdiction. The council, together with the Municipal Manager and Section 56 employees has authority and responsibility to plan and control the activities of the municipality, to manage the resources and for the overall achievement of municipal objectives. Therefore, key management personnel will include the Municipal Manager, Deputy Municipal Managers and Chief Financial Officer of the municipality.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Where transactions occurred between the municipality and any one or more related parties, and those transactions were not within:

- normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances; and
- terms and conditions within the normal operating parameters established by the reporting entity's legal mandate; only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.26 Events after reporting date

Events after the reporting date are defined as favourable and unfavourable events that occur between the reporting date and the date the annual financial statements are authorised for issue.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting policies

1.26 Events after reporting date (continued)

The date of authorisation for issue is the date on which the Accounting Officer signs off the annual financial statements.

Two types of events can be identified

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date):
and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date)

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
2. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	15,700	15,350
Bank balances	80,991,537	33,934,205
Call accounts	136,501,159	33,503,306
	217,508,396	67,452,861

The primary banking institution is Standard bank, the following secondary banking institutions are also applicable

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
ABSA bank - current account - 530-000-087	23,330,239	8,687,742	21,940,708	8,202,079
ABSA bank - salary account - 405-774-9059	294,964	40,375	294,964	40,375
ABSA bank - traffic fines - 407-683-0782	10,000	10,000	10,000	10,000
Standard bank - current account - 420-502-084	62,987,565	11,407,799	45,444,583	(27,601,720)
Standard bank - current account - 021-879-370	10,959,387	45,960,265	10,727,524	51,872,124
Standard bank - current account - 080-488-129	2,573,758	1,411,347	2,573,758	1,411,347
Total	100,155,913	67,517,528	80,991,537	33,934,205

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

2. Cash and cash equivalents (continued)

Call accounts

Invested with	01 July 2018	Invested	Interest capitalised	Withdrawn	Total
ABSA-9208236189	534,315	-	18,903	-	553,218
ABSA-9286830535	162,124	-	298	(162,422)	-
ABSA-9289903783	455,350	-	5,319	(460,669)	-
ABSA- 9297192700	295,745	-	2,751	(298,496)	-
ABSA-4096216150	-	5,000,000	51,777	(105)	5,051,672
STD Bank-	-	759,830	13,140	-	772,970
028606817#75	-	1,235,000	16,519	(972,412)	279,107
STD Bank-	-	11,972,412	352,338	(973,264)	11,351,486
028606817#74	-	-	-	-	-
STD Bank-	17,208,356	-	1,488,523	-	18,696,879
028606817#72	-	-	-	-	-
STD Bank-	9,315	10,235,000	-	(9,244,315)	1,000,000
028606817#60#62	-	-	-	-	-
STD Bank-	108,145	-	1,170	(109,315)	-
028606817#60#68	-	-	-	-	-
STD Bank-	50,000	-	-	-	50,000
028606817#70	-	67,904,102	-	(7,921,102)	59,983,000
STD Bank-	-	245,000,000	420,349	(241,000,000)	4,420,349
028606817#76	-	-	-	-	-
STD Bank-	82,860	-	-	(82,860)	-
028606817#77	-	-	-	-	-
Nedbank-	194,605	-	11,877	-	206,482
03/7881044284/0025	-	1,438,000	38,693	(690,992)	785,701
Nedbank-	-	128,484,152	-	(115,979,013)	12,796,473
03/7881044284/0036	291,334	1,550,000	79,852	(515,533)	1,114,319
Investec -	-	5,462,000	247,112	(1,058,534)	4,650,578
1400192509500	-	5,748,594	60,014	(5,364,702)	443,906
Nedbank-	-	823,000	17,096	-	840,096
03/7881044284/0039	-	3,630,000	67,499	(1,238,003)	2,459,496
Nedbank-	181,636	10,000,000	314,023	(7,559,002)	2,936,657
03/7881044284/0040	6,707,104	-	132,204	(6,839,308)	-
Nedbank-	-	11,083,551	313,444	(3,288,251)	8,108,744
03/7881044284/0042	-	-	-	-	-
Nedbank-	-	-	-	-	-
03/7881044284/0043	-	-	-	-	-
Nedbank-	-	-	-	-	-
03/7881044284/0044	-	-	-	-	-
FNB-62713021252	-	-	-	-	-
FNB - 62716601209	-	-	-	-	-
FNB - 62791255469	-	-	-	-	-
	26,280,889	510,325,641	3,652,901	(403,758,298)	136,501,133

Unlimited cession dated 25/07/2008 of a Absa call account no 9208236189, Held to partly secure (76%) of a R587 094 financial guarantee facility.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
3. Trade and other receivables from exchange transactions		
Gross balances		
Electricity	793,731,432	575,326,347
Water	4,048,692,997	3,290,341,488
Sewerage	1,117,269,702	926,995,889
Refuse	680,639,260	570,212,978
	6,640,333,391	5,362,876,702
Less: Allowance for impairment		
Electricity	(612,164,940)	(503,814,275)
Water	(3,884,339,764)	(3,131,853,911)
Sewerage	(1,065,532,087)	(875,873,096)
Refuse	(655,448,766)	(542,644,298)
	(6,217,485,557)	(5,054,185,580)
Net balance		
Electricity	181,566,492	71,512,072
Water	164,353,233	158,487,577
Sewerage	51,737,615	51,122,793
Refuse	25,190,494	27,568,680
	422,847,834	308,691,122
Included in above is receivables from exchange transactions		
Current (0-30 days)	317,421,993	224,171,351
31 - 60 days	203,057,247	128,687,006
61 - 90 days	160,587,864	109,654,226
91 days +	5,959,266,282	4,900,442,121
	6,640,333,386	5,362,954,704
Reconciliation of allowance for impairment		
Balance at beginning of the year	(5,054,185,580)	(4,224,477,923)
Contributions to allowance	(1,021,780,735)	(747,237,835)
Vat contribution	(147,028,486)	(100,743,878)
Debt impairment written off against allowance	5,509,244	18,274,056
	(6,217,485,557)	(5,054,185,580)

Credit quality of consumer debtors

Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in public sector, through established practices and legislation.

All debtors accounts are assessed for impairments, where applicable we impaired debtors over 90 days, according to the following criteria:

Bad debt

Government accounts : 0% of the total outstanding amount

Sundry accounts: 100% between 91 days and more

Business/industrial: 100% between 91 days and more

Residential: average ratio between 91 days and more

Indigent accounts: 100% of outstanding amount

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
3. Trade and other receivables from exchange transactions (continued)		
All other accounts:		
- Outstanding amounts between 181 days and more		
- Balance of amounts not collected under collectable and doubtful debt.		
4. Trade and other receivables from non-exchange transactions		
Property rates	902,053,959	742,969,245
Impairment property rates	(772,014,415)	(670,400,561)
Other receivables- fines	627,471,595	544,053,187
Impairment fines	(552,961,187)	(503,575,630)
Other debtors	553,149,974	500,260,150
Impairment other debtors	(410,377,064)	(338,133,664)
	347,322,862	275,172,727
Reconciliation for allowance for impairment		
Opening balance	(1,512,109,857)	(1,113,293,999)
Contribution to allowance	(307,581,924)	(414,122,496)
Vat Contribution	(684,707)	(96,983)
Amounts written off against the allowance	85,023,820	15,403,621
	(1,735,352,668)	(1,512,109,857)
Age analysis: property rates		
Current (0-30 days)	60,966,837	53,378,111
31-60 days	26,614,658	22,834,848
61-90 days	21,806,720	18,600,234
91 days +	792,665,744	648,205,059
	902,053,959	743,018,252
Debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in public sector, through established practices and legislation.		
Interest at a rate of prime plus 2% is levied on arrear debtors accounts.		
All debtors accounts are assessed for impairments, where applicable we impaired debtors over 90 days.		
5. Inventories		
Consumable stores	22,342,425	23,012,813
Water	805,146	561,676
	23,147,571	23,574,489
6. Value added tax receivable		
VAT	311,859,358	312,445,343

Value added tax is payable on the receipts basis and is paid over to South African Revenue Services only once payment is received from debtors. The value added tax receivable relates to net input vat claimable from SARS. The value added tax percentage increased from 14% to 15% on 1 April 2018.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

Figures in Rand

7. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Building property	801,489,461	(319,996,488)	481,492,973	660,358,473	(291,907,196)	368,451,277
Infrastructure	13,097,306,233	(4,483,637,561)	8,613,668,672	12,841,420,875	(4,146,321,987)	8,695,098,888
Community	1,361,474,257	(186,237,720)	1,175,236,537	1,400,074,019	(163,658,849)	1,236,415,170
Other assets	324,290,656	(250,054,981)	74,235,675	413,698,651	(236,490,902)	177,207,749
Total	15,584,560,607	(5,239,926,750)	10,344,633,857	15,315,552,018	(4,838,378,934)	10,477,173,084

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals / Derecognition	Donated	Provision Adjustment	Transfer	Depreciation	Impairment	Total
Building property	368,451,277	-	-	-	-	141,164,137	(28,122,441)	-	481,492,973
Infrastructure	8,695,098,888	141,503,364	(1,714,349)	29,434,771	(5,086,240)	58,879,656	(304,127,111)	(320,307)	8,613,668,672
Community	1,236,415,170	46,117,865	(1,368,331)	20,670,944	-	(107,056,760)	(19,542,351)	-	1,175,236,537
Other assets	177,207,749	6,158,811	(1,775,754)	1,769,910	-	(94,576,053)	(14,475,837)	(73,151)	74,235,675
	10,477,173,084	193,780,040	(4,858,434)	51,875,625	(5,086,240)	(1,589,020)	(366,267,740)	(393,458)	10,344,633,857

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals / Derecognition	Donated	Provision Adjustment	Transfer	Depreciation	Impairment	Total
Building property	391,901,706	1,622,359	(63,004)	-	-	3,111,986	(28,121,770)	-	368,451,277
Infrastructure	8,849,233,890	238,307,962	(184,044)	7,091,078	(33,153,724)	(43,924,117)	(307,695,080)	(14,577,077)	8,695,098,888
Community	830,127,509	45,797,674	(1,289,648)	450,000	-	380,224,383	(18,894,748)	-	1,236,415,170
Other assets	104,205,686	7,236,251	(948,561)	1,647,235	-	81,945,891	(16,470,623)	(408,130)	177,207,749
	10,175,468,791	292,964,246	(2,485,257)	9,188,313	(33,153,724)	421,358,143	(371,182,221)	(14,985,207)	10,477,173,084

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
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7. Property, plant and equipment (continued)

Change in estimates, RUL and RV

During the annual review meetings, the RUL, EUL and RV definitions and GRAP requirements were explained to the municipality's technical department. Emfuleni Local Municipality technical departments reviewed the EULs, RULs and RVs on existing assets as at 1 July 2018. During the review it was decided that certain component's remaining useful life should be changed.

De-recognition

During the financial year certain assets were derecognised amounting to R2,765,782. The de-recognitions were included in the 2018/19 assets register.

Impairments

During the year assets were identified which were impaired due to accelerated deterioration of the assets. The total value of the impairments amounted to R 320 263.

Provision adjustment

Provision has been made for the estimated cost of rehabilitating waste landfill sites, included in solid waste infrastructure on the 2018/2019 Asset Register. An amount of R23,245,023.35 was determined as the provision adjustment for the 2018/2019 financial year, of which R5,086,240 is a decrease in the valuation of the landfill site assets as described in note for the provision for environmental rehabilitation.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

Figures in Rand

7. Property, plant and equipment (continued)

Transfers

During the financial year, land parcel valued R25 278 000 where transferred to the Municipality.

WORK IN PROGRESS - ONGOING PROJECTS, PROJECTS TAKING SIGNIFICANTLY LONGER TO COMPLETE AND HALTED PROJECTS.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

Figures in Rand

7. Property, plant and equipment (continued)

Project UID	Project name	Comments on status	Class of asset	Total
EX0026	CONSTRUCTION SOCIAL SERVICES EMFULENI	<p>ECD's part of this project. Sharpville-, Boipatong - and Evaton ECD's still under construction as multi year projects.</p> <p>Sharpville- and Boipatong ECD's the original contractors was replaced also adding to delays.</p> <p>Sharpville ECD project progressing at a slow rate due to financial problems from the current contractor. The project is currently on hold.</p> <p>Boipatong ECD is currently on hold. After the mutual termination of JM Mncgwango, Emfuleni appointed Makgotamishe Building construction to complete the outstanding works. The main works completed was the roofing of Old age day care block and Administration block including brick work and plastering of the two buildings.</p> <p>The contractor was instructed to stop construction due to dispute/disagreements on the project value. The contract has also been declared as irregular because SCM processes were not followed but a deviation report was approved by the MM.</p>	Community Facilities	102,263,808
EX0050	EXPANSION OF RUST TE VAAL CEMETERY PTN 4	<p>The project started with pre-planning in the 2010/2011 financial year. The 1st professional service provider was terminated and a new service provider appointed in 2016/2017 financial year to proceed with the planning stage of the project. The project Design is completed and awaiting procurement.</p>	Community Facilities	1,755,074

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

Figures in Rand

7. Property, plant and equipment (continued)

EX0289	N:Investigate & Dev General Landfill Site	This is in the planning stages is the taking over of the old Yakani Brickvele borrowpits and to see if it will pass as a Waste Management Site via Department of Environmental affairs. If it is approved by the department of Environmental affairs after the required scoping report and EIA's was done then the Old Borrowpits will be transfered to ELM to establish the landfill site as per the ROD conitions laid down. The Old Borrowpit will be transfered to Emfuleni as per deed of donation is it is approved to be used as an Solid Waste Management Site. The project is still in planning phase Design Complete. Awaiting procurement.	Community Facilities	1,882,725
EX0328	R:VANDERBIJLP ARK CEMETERY		Community Facilities	3,135,402
EX0333	N:NEIGHBOURH OOD PARTNER SHIP GRANT	Construction started in May 2019 of Phase 3A1 (X17 Road 168) & 3A3 (X10 Road 31)	Community Facilities	23,708,391
EX0377	R:FENCING OF TSHEPISO CEMETERY	Design complete. Awaiting procurement.	Community Facilities	863,617
EX0603	REC FAC SHARPVILLE WARD 13(Moedi School)	Moedi School been converted in an old age home. Under constrcution. Various delays due to Sharpville's sub-contractors forum. Contractor 's progress has been very slow. Financial challenges from the contractor has caused all the delays resulting in the contractor getting a funder to complete the project. The contractor and his funder have submitted a cession agreement requesting the municipality to pay the funder directly. The cession still needs to serve at Bid Adjudication Committee for approval.	Community Facilities	8,422,644
EX0376	R:UPGRADING OF NANESCOL CEMETERY	Design complete. Awaiting procurement.	Community Facilities	1,559,289
EX0247	R:Replace 11kV switchgear various subs	Implementation of switchgear in various sub stations	Electricity	507,421

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

Figures in Rand

7. Property, plant and equipment (continued)

EX0265	N: Repl 20MVA 88/11kV trf Town subs	The sub station was damaged during an electrical fire during the current year and repair to this subststaion is continuing.	Electricity	3,714,707
EX0403	R: Upgrading 11kV rural lines	The availability of voucher was mainly affected by the burning down of the electricity offices. There is a few items that more clarrity will have to be obtained from the department to establish if it is capital or not. Only once these alternative routes is completed to determine the nature of the transaction will it be treated accordingly. This is expected to be completed in the 2018/2019 finacial year.	Electricity	2,087,573
EX0419	N: LT Panels	Implementation of panels in various sub stations.	Electricity	1,896,708
EX0500	TRANSFORMER S	Installation of 500kVA transformer at VIBC1 Substation in Vereeniging.	Electricity	279,000
EX0512	MOBILE 500KVA STANDBY GENERATOR	Awaiting final payment to service provider for delivery.	Electricity	1,809,968
EX0514	11KV SWITCHGEARV ARIOS SUBSTA TION	Work done in DUN18 Substation. The work was almost complete at year end.	Electricity	1,622,795
EX0523	TRANSFORMER pole	Installations of transformers to service rural areas serviced by overhead networks.	Electricity	1,102,480
EX0525	INSTALL BUNDLE CONDUCTOR	Replacement of overhead bundle conductors for street lights trough the ELM area. The project is scheduled to be completed end September 2019.	Electricity	1,586,962

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

Figures in Rand

7. Property, plant and equipment (continued)

EX0016	NGUNA STREET IN SEBOKENG ZONE 7	<p>The project also had the first contractor and consultant terminated. Agreements had to be reached on what work will be done as the community demanded a bridge over the Rietspruit which was not in line with the class of road.</p> <p>A second consultant was appointed and 2nd contractor to complete the project.</p> <p>The contractor was stopped by the community since January 2018 til October 2018, and there was vandalism to his plant and a claim for the delays and vandalism has been submitted to ELM for adjudication. The contractor returned to site for two weeks and abandoned the site due to unpaid claims for standing time from January 2018 until October 2018. The claim was only paid in May 2019. The contractor has since returned to site to complete the outstanding scope.</p>	Roads & Stormwater	42,941,715
EX0095	UPGRADING OF ROADS AND SORMWATER BOPHELONG X 11/ 14	<p>Planning Stage.</p>	Roads & Stormwater	1,354,623
EX0274.1	UPGRADING OF ROADS AND STORMWATER SYSTEM IN SEBOKENG ZONE 6 EXT 3 (ROAD 48 AND 52)	<p>The project is in construction stage and is 99% complete. Some minor issues to be concluded. The first 2 contractors on this project was terminated and also the consultants.</p> <p>A second consultant was appointed and a 3rd & 4th contractor to complete the works.</p>	Roads & Stormwater	38,299,555
EX0348	N:TARRING OF DHLAMINI STREET FROM UMZIMV	Design Complete. Awaiting procurement.	Roads & Stormwater	709,264

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

Figures in Rand

7. Property, plant and equipment (continued)

EX0349	N:TARRING OF PITSENG AND URANIUM STREETS	Design Complete. Awaiting procurement.	Roads & Stormwater	930,038
EX0351	N:TARRING OF CETSHWAYO STREET	Contractor abandoned the project on several occasions. The contractor has been summoned to rectify the challenges to complete the project failure which will result in termination being issued to the contractor.	Roads & Stormwater	9,727,280
EX0352	N:TARRING OF ROAD IN LAKESIDE PROPER BLO	Design complete. Awaiting procurement.	Roads & Stormwater	751,035
EX0670	N:CONSTRUCTI ON LINDT RD EVATON MILNER RD	Started with Construction in April 2019 and the project progress was at 13% at end June 2019. Expected Completion March 2020.	Roads & Stormwater	23,778,862
EX0671	N:CONSTRUCTI ON LINDT RD	Project has exceeded beyond the duration of the project due to the slow progress of the contractor. The project progress was 79% at end June 2019. The project was sscheduled to be completed in April 2019. The revised completion date for construction is 30 September 2019.	Roads & Stormwater	9,546,401
EX0374	N:TARRING OF BIKITSHA STREET ZONE 12	Contractor abandoned the project on several occasions. The contractor has been summoned to rectify the challenges to complete the project failure which will result in termination being issued to the contractor.	Roads & Stormwater	12,944,533
EX0528	BLACKTOP ROAD AND SW CHRIS HANI STR	Design complete. Awaiting procurement and funding approval.	Roads & Stormwater	1,287,569
EX0529	CONSTRUCTIO N OF THOMAS NKOBI	This is the planning of Phase 2 to construct a tar road after Phase which entailed the installation of a surface and subsurface stormwater system.	Roads & Stormwater	561,531

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

Figures in Rand

7. Property, plant and equipment (continued)

EX0534	R:CONCRETIN G-STORMWATE R CHANNEL- ZONE 10	Design complete. Awaiting procurement and funding approval.	Roads & Stormwater	1,191,721
EX0616	N:TARRING OF BEGONIA STREET	Design complete. Awaiting procurement and funding approval.	Roads & Stormwater	1,747,697
EX0625	N: R & S PIPE AT DR NKOMO IN BOIPATONG	Design complete. Awaiting procurement and funding approval	Roads & Stormwater	1,550,036
EX0628	N:CONSTR OF V/SCHALKVYK STR	Design complete. Awaiting procurement and funding approval	Roads & Stormwater	2,867,893
EX0678	EATONside N:IRONSIDE ROAD 1 STORMWATER & SIDEWALKS	Project is in the planning phase	Roads & Stormwater	1,060,314
EX0411	N:WASTE MANAG. TREATMENT PUMPSTATION	Project started in 2016/2017 and was the procurement mainly of pumps. The installation of these pumps is only taken place as we get electricity hardware	Sanitation	1,048,739
EX0633	UPGRADING & REFURBISH 46 PUMP STATIONS	Not completed as yet. Renewal of Mechanical Electrical assets plus cleaning of sumps to get the Pump Station operational again. Completion pending roll over application.	Sanitation	9,868,038
EX0296	R:Upgrade Rust- Ter-Vaal Sport Stadium	Phase 2 in process to complete the project. Contractor has operated at a very slow pace sighting financial challenges. A variation order was submitted and approved by Bid Adjudication Committee. MIG additional funding awaited to complete Phase 2.	Sports & recreation Facilities	49,029,959
EX0297	N:Const. Recreation Facility Palmsprings	Contractor for fencing started in 2017/2018 as Phase 1. Implementation of the rest of the project to follow in stages as and when funding is available.	Sports & recreation facilities	22,464,629

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

Figures in Rand

7. Property, plant and equipment (continued)

EX0298	R:WATER SUP FRM EVATON RES TO DADEVILLE	Design complete. Awaiting procurement and funding approval.	Water	3,925,281
EX0299	N:CONSTR WATER PIPE LETHABONG TO HOUTKOP	Design complete. Awaiting procurement and funding approval.	Water	1,883,564
EX0300	N:CONSTR BULK WATER SUP HOUTKOP UNITAS	Design complete. Awaiting procurement and funding approval.	Water	2,066,544
EX0301	N:WATER SUP WESTERN AREAS & VAALOEWER	Design complete. Awaiting procurement and funding approval.	Water	3,011,482
EX0314	N:BULK WATER SUPPLY TSHEPISO TO SHARPEVILLE	Design complete. Awaiting procurement and funding approval.	Water	1,848,427
EX0357	N:BULK WATER SUPPLY FROM UNITAS RESERVIOIR	Design complete. Awaiting procurement and funding approval.	Water	1,644,485
EX0213	N:BASIC SERVICES PROFESSIONAL FEES PLANNING	Planning Stage. Awaiting funding to continue. Application have been made on SDRSS & COGTA funding to implement this project.	Water & Sanitation	341,198
EX0540	REFURBISH VAALOEWER WATER TREATMENT WORK	Construction completed. Awaiting final certificate from Professional service provider, plus close out information for take on of asset.	Water	7,995,243

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

Figures in Rand

7. Property, plant and equipment (continued)

EX0660	R:UPGRADING OF METER BOXES ELM	Work on MV Panels at Vanderbijlpark Water Towers	Electricity	1,058,699
				-
				-
				-
				<u>415,634,919</u>

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
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8. Investment property

	2019			2018		
	Valuation	Accumulated depreciation	Carrying value	Valuation	Accumulated depreciation	Carrying value
Investment property	972,604,119	-	972,604,119	962,368,300	-	962,368,300

Reconciliation of investment property - 2019

	Opening balance	Disposals / Derecognition	Fair value adjustments	Total
Investment property	962,368,300	(22,654,175)	32,889,994	972,604,119

Reconciliation of investment property - 2018

	Opening balance	Disposals / Derecognition	Transfers received	Fair value adjustments	Total
Investment property	1,420,103,908	(700,000)	(486,876,424)	29,840,816	962,368,300

Details of valuation

Fair value adjustments - Investment property

For the determination of annual review of the fair value in 2018-2019 financial year, a value of R33,059,278 was determined as the fair value adjustment based on the average increase in the value of property in Emfuleni Local Municipality that escalated by 3.5% during the period from 1 July 2018-30 June 2019.

Derecognition

During the current period property transfers valued R20,858,520 were effected.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

Figures in Rand

9. Intangible assets

	2019			2018		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	9,996,822	(2,288,591)	7,708,231	35,655,141	(26,361,957)	9,293,184
Servitudes	13,849,516	-	13,849,516	13,849,516	-	13,849,516
Total	23,846,338	(2,288,591)	21,557,747	49,504,657	(26,361,957)	23,142,700

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Disposals/Derecognition	Transfers	Amortisation	Total
Computer software	9,293,184	724,215	(24,837)	(5,924)	(2,278,407)	7,708,231
Servitudes	13,849,516	-	-	-	-	13,849,516
Total	23,142,700	724,215	(24,837)	(5,924)	(2,278,407)	21,557,747

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Disposals/Derecognition	Transfers	Amortisation	Total
Computer software	3,968,037	6,954,614	(104,862)	(137,212)	(1,387,393)	9,293,184
Servitudes	13,849,516	-	-	-	-	13,849,516
Total	17,817,553	6,954,614	(104,862)	(137,212)	(1,387,393)	23,142,700

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
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10. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	57,016	-	57,016	57,016	-	57,016

Reconciliation of heritage assets 2019

	Opening balance	Total
Heritage assets	57,016	57,016

Reconciliation of heritage assets 2018

	Opening balance	Total
Heritage assets	57,016	57,016

Age and/or condition of heritage assets

Assets previously recognised as heritage assets were assessed for significance aligned with Section 3 (3) of the National Heritage Resources Act. The chief criteria for classifying an asset as heritage asset are:

- Social and cultural significance
- Historical significance
- Archaeological significance
- Architectural significance
- Aesthetic significance
- Scientific and technological significance
- Group and relationship significance
- Landmark significance

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
11. Trade and other payables from exchange transactions		
Trade payables	2,966,128,787	2,179,787,476
Payments received in advance	228,199,779	217,679,482
Retentions	45,333,293	58,051,197
Accrued interest	226,333	352,360
Accrual for annual leave	72,456,220	69,052,457
Accrual for 13th cheque	26,808,910	25,668,851
Year-end salary creditors	216,113,114	197,941,348
Unclaimed wages	1,547,847	1,543,868
Other payables	11,725,963	12,705,463
Imputed interest	(6,695,369)	(8,569,855)
	3,561,844,877	2,754,212,647

12. Consumer deposits

Electricity and water	52,527,882	51,309,073
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The amounts reflected represent a cost value. Management believes that the cost value approximates the fair value.

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Social development grant	5,371,680	-
Neighbourhood development grant	4,425,016	1,419,856
Library grant	5,265,850	5,850,722
Projects funded ex Sedibeng district municipality	1,160,599	1,160,599
Sedibeng maintenance grant	1,003,104	1,048,533
Financial management grant	-	1,922
Education & Training (SETA)	494,189	-
Municipal infrastructure grant	34,736,753	-
Performance management grant	6,364	505,804
Water services infrastructure grant(WSIG)	1,526,778	9,536,614
Department of Water Affairs	-	2,551,363
Cogta grant	-	893,724
	53,990,333	22,969,137

Refer to note 22 for detailed movements on grants

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
14. Borrowings		
At amortised cost		
Borrowings	5,743,140	8,905,770
Non-current liabilities		
At amortised cost	2,061,807	5,743,139
Current liabilities		
At amortised cost	3,681,333	3,162,631
15. Finance lease		
Minimum lease payments due		
- within one year	2,341,606	7,824,681
- in second to fifth year inclusive	-	3,421,738
Present value of minimum lease payments	2,341,606	11,246,419
within one year	2,341,606	7,824,681
in second to fifth year	-	3,421,738
	2,341,606	11,246,419

The average lease term is 3years and the average effective borrowing rate or escalation was 10.5% interest rates are fixed at a contract date. All leases have variable or fixed repayments and in certain instances contingent rent is payable as per stipulation in the lease agreements.

The municipality's obligation under finance leases are secured by the leases charge over the leased assets. The municipality did not default on any of the interest or capital repayments of the leases. No terms and conditions of finance leases were re-negotiated. There is no restriction imposed on the lease agreements

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

			2019 R	2018 R	
16. Provision					
Reconciliation of provision - 2019					
	Opening balance	Change in discount factor	Increase due to re- measurement or settlement without cost to entity	Total	
Environmental rehabilitation	133,276,369	18,163,840	(23,245,024)	128,195,185	
Legal proceedings	13,885,861	-	-	13,885,861	
Reconciliation of provision - 2018					
	Opening Balance	Utilised during the year	Change in discount factor	Increase due to re- measurement or settlement without cost to entity	Total
Environmental rehabilitation	153,534,585	-	12,895,507	(33,153,723)	133,276,369
Legal proceedings	13,885,862	(1)	-	-	13,885,861
	167,420,447	(1)	12,895,507	(33,153,723)	147,162,230
Non-current liabilities				128,195,185	133,276,369
Current liabilities				13,885,861	13,885,861

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
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16. Provision (continued)

Environmental rehabilitation provision

The discount rate of 10.5% utilised to account for the finance cost is based on the weighted average cost of capital rate to the municipality. Using the methodology of the calculation of first escalating the proposed costs, then discounting the costs by the relevant dates allows for a full life cycle analysis as well as appropriate cost value which takes into consideration the time value of money.

The financial provision calculated represents the expenditure required for rehabilitation of the cell areas currently used (not the entire site), including areas that have been used but not rehabilitated. The expected rehabilitation costs have been determined by escalating the current rehabilitation costs over the remaining useful life up to the expected date of rehabilitation of the respective landfill cell areas by using percentage increase year on year from 30 June 2018 to 30 June 2019, should the design have remained the same, is calculated as 6,2% due to the typical contractor price increases noticed in similar project rates being undertaken in SA.

The difference between the 2018 and 2019 rehabilitation assessment years is due to the change of capping materials from synthetic to a more natural materials selection as per similar projects recently approved for a general waste sites under the Norms & Standards, Gazetted R636 thus the cost has reduced. The Engineering fees were estimated at the following percentage of the construction amount:

Boitshepi : 2%

Waldrift : 3.5%

Palm Springs : 4%

The municipality has three landfill sites:

Boitshepi

The landfill site was licensed in 2011 as a G:L:B+ landfill site and is situated in the outskirts of the Tshepiso residential area near Vanderbijlpark. The extent of the property is 34,4195Ha and the footprint of the current waste disposal area is 26,843Ha. As no progressive rehabilitation has taken place, the entire site will need to be rehabilitated as part of the final closure. The areas to be closed off as at 30th of June 2019 is 24.37Ha. The cost estimated (Rehabilitation provision) to close the entire site, based on value determined at 30th of June 2019 is R128 936 037 excluding VAT of 15%.

Waldrift

The landfill site was licensed in 2011 as a G:L:B- site and is situated in the mining farm areas near Vereeniging. The extent of the property is 31.8842Ha. The proposed waste disposal area is 18.7946Ha and the surface area to be rehabilitated as at 30th of June 2019 is 15.00Ha. Disposal is licensed to be filled to 32m above NGL at closure.

The estimated cost (rehabilitation provision) for the entire site, as at 30th June 2019 is R73 556 214 excluding VAT of 15%.

Palm Springs

The landfill site was licensed in 2007 as a G:M:B- landfill site and is situated near Orange Farm. The disposal cells of the site have recently been upgraded to include to formal disposal phases, both of which are still operational. The site will grow to include 6 disposal phases over the life of the site.

The extent of the property is 100 000 Ha, although the approved operational area is only 66,6384 Ha and the waste disposal area is 24,9866 Ha.

The cost estimated (rehabilitation provision) to close the entire site, based on a value determined at 30 June 2019 is R44 152 114 excluding VAT of 15%.

On this basis the provisions at 30 June 2019 can be summarised as follows:

i) Waldrift landfill site : R 41 302 085.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
16. Provision (continued)		
ii) Boitshepi landfill site : R 82 912 921		
iii) Palm springs landfill site: R 3 980 179		
Total provision for rehabilitation as at 30 June 2019 for all three sites at the respective closure dates is estimated at R 128 195 185.		
17. Service charges		
Sewerage and sanitation charges	449,424,625	406,673,620
Sale of electricity	1,998,163,055	1,688,686,180
Sale of water	1,516,660,728	1,468,179,306
Refuse removal	247,212,015	223,052,809
	4,211,460,423	3,786,591,915
18. Rental of facilities and equipment		
Premises		
Rental of facilities	17,271,139	16,409,493
Facilities and equipment		
Rental of equipment	1,168	356
	17,272,307	16,409,849
19. Finance income		
Interest revenue		
Interest on arrears	75,211,283	66,453,778
Bank	10,167,932	3,560,866
	85,379,215	70,014,644
20. Other income		
Industrial effluent	32,474,724	25,768,863
Access to information	62,825	161,357
Capital contribution	491,834	945,012
Sundries/unallocated income	30,331,242	8,892,806
Warning services	229,775	264,571
Advertising	940,458	418,101
Deed searches	1,449,274	1,015
Reconnection fees	6,892,338	4,989,040
Sale of Ash	-	31,973,684
Planning fees	125,757	289,685
Sale of tender documents	914,750	1,183,700
Building plans	1,155,796	1,458,515
Cemeteries	9,189,723	11,235,949
Entrance fees	345,111	1,089,789
General service fees	5,966,811	8,782,591
Fire rescue services	538,234	475,842
Refuse dumping landfill site	11,724	4,068,897
	91,120,376	101,999,417

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
21. Property rates		
Rates		
Rates levied	856,165,255	799,015,311
The valuations are utilised to levy property rates on a monthly basis.		
Rebates on property rates levied can be defined as any income that the municipality is entitled by law to levy, but which has subsequently been foregone by way of rebate or remission.		
Valuations		
Residential	69,062,505,000	68,794,842,203
Business	11,794,125,000	10,968,586,002
Industrial	5,802,069,000	5,751,787,000
State owned properties	2,582,727,000	2,581,537,001
Municipal	1,191,406,000	1,191,907,000
Agricultural	1,403,416,000	1,386,040,000
Other	1,236,959,076	1,257,673,073
	93,073,207,076	91,932,372,279
22. Government grants and subsidies		
Operating grants		
Equitable share	707,723,392	633,240,454
Financial management grant	1,550,000	1,548,078
Social development grant	13,862,148	20,011,234
Expanded public works programme grant	2,746,000	2,847,000
Cogta Grant	893,724	-
Bontle ke botho	-	582,266
Health and environmental subsidies	41,428,098	44,271,999
Neighbourhood development grant	10,498,984	8,054,144
Sedibeng maintenance grant	45,430	63,116
Cogta (Pumpstation)	2,551,363	-
Performance grant	499,440	494,196
	781,299,139	710,618,291
Capital grants		
Municipal infrastructure grant	130,652,247	176,145,000
Library grant	12,714,873	13,292,312
Water services infrastructure grant(WSIG)	18,473,222	20,463,386
Asset management	750,000	500,000
	162,590,342	210,400,698
	944,388,921	921,513,185

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic and administrative services to indigent community members and to subsidise income. An amount of R 707 724 000 was gazetted for the 2018/19 financial year.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
22. Government grants and subsidies (continued)		
Financial management grant		
Balance unspent at beginning of year	1,922	-
Current-year receipts	1,550,000	1,550,000
Conditions met - transferred to revenue	(1,550,000)	(1,548,078)
LGFMG: Repayment of unspent	(1,922)	-
	<u>-</u>	<u>1,922</u>

Conditions still to be met - remain liabilities (see note 13).

This grant is used to promote and support reforms in financial management by building capacity in municipalities to implement the MFMA.

Education & Training (SETA)

Current-year receipts	1,940,023	-
Conditions met - transferred to revenue	(1,445,834)	-
	<u>494,189</u>	<u>-</u>

Social development grant

Balance unspent at beginning of year	-	6,911,235
Current-year receipts	19,233,828	11,736,161
Conditions met - transferred to revenue	(13,862,148)	(20,011,234)
Amount Spent but not received	-	1,363,838
	<u>5,371,680</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 13).

The purpose of the grant is for the construction of 20 Priority township project (Early Childhood Development Centres).

Expanded public works programme

Balance unspent at beginning of year	-	20,363
Current-year receipts	2,746,000	2,847,000
Returned to National Treasury	-	(20,363)
Conditions met - transferred to revenue	(2,746,000)	(2,847,000)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 13).

To provide expanded public works programme (EPWP) incentive funding to expand job creation efforts in specific focus areas, where labour intensive delivery methods can be maximised.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
22. Government grants and subsidies (continued)		
Bontle ke botho		
Balance unspent at beginning of year	-	582,266
Conditions met - transferred to revenue	-	(582,266)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 13).

The MEC agriculture conservation and environment, initiated a clean and green programme based on the Johannesburg plan of implementation, whereby the municipalities, wards and schools are encouraged to keep the nearest places clean. This is done through a campaign named Bontle ke botho which rewards the best municipality.

Health and environment subsidies

Current-year receipts	41,428,098	44,271,999
Conditions met - transferred to revenue	(41,428,098)	(44,271,999)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 13).

The amounts are re-imbursed to the municipality for the Public Health Services which are delivered by the municipality on behalf of the Gauteng Department of Health and the Sedibeng District Municipality.

Neighbourhood development Partnership grant

Balance unspent at beginning of year	1,419,856	1,084,345
Current-year receipts	14,924,000	9,474,000
Conditions met - transferred to revenue	(10,498,984)	(8,054,144)
Returned to National Treasury	(1,419,856)	(1,084,345)
	<u>4,425,016</u>	<u>1,419,856</u>

Conditions still to be met - remain liabilities (see note 13).

The purpose of the grant is to support and facilitate the development of urban network plans that consist of primary and secondary networks that interconnect at strategic nodes, which in townships are referred to as urban hubs. The amount of R10 498 984.25 was off-set against the Equitable Share by the National Treasury.

Infrastructure asset management grant

Current-year receipts	750,000	500,000
Conditions met - transferred to revenue	(750,000)	(500,000)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 13).

The purpose of the grant is to support identified municipalities to update and maintain the infrastructure (Service delivery) asset registers in compliance with GRAP 17.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
22. Government grants and subsidies (continued)		
Municipal Infrastructure grant		
Current-year receipts	165,389,000	176,145,000
Conditions met - transferred to revenue	(130,652,247)	(176,145,000)
	34,736,753	-

Conditions still to be met - remain liabilities (see note 13).

To provide specific capital finance for eradicating basic municipal infrastructure backlogs for poor households, microenterprises and social institutions servicing poor communities.

National electrification programme

Balance unspent at beginning of year	-	787,745
Returned to National Treasury	-	(787,745)
	-	-

Conditions still to be met - remain liabilities (see note 13).

To implement the integrated national electrification programme (INEP) by providing capital subsidies to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure in order to improve quality of supply.

Library grant

Balance unspent at beginning of year	5,850,722	6,036,035
Current-year receipts	12,130,000	13,107,000
Conditions met - transferred to revenue	(12,714,872)	(13,292,313)
	5,265,850	5,850,722

Conditions still to be met - remain liabilities (see note 13).

The purpose of the grant is to financially support municipal library services in the administration of libraries, in order to render efficient, effective and economic library and information services to communities.

Projects funded ex Sedibeng district municipality

Balance unspent at beginning of year	1,160,599	1,160,599
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Conditions still to be met - remain liabilities (see note 13).

Funds are used for upgrading of cemeteries.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
22. Government grants and subsidies (continued)		
Sedibeng maintenance grant		
Balance unspent at beginning of year	1,048,533	293,197
Correction of error - Receipts 2016/17	-	409,226
Current-year receipts	-	409,226
Conditions met - transferred to revenue	(45,429)	(63,116)
	1,003,104	1,048,533

Conditions still to be met - remain liabilities (see note 13).

The purpose of this grant is the maintenance of farming equipment and implements donated by GDARD to Sedibeng Municipality as part of GDARD's mechanisation programme.

Performance Management Grant

Balance unspent at beginning of year	505,804	-
Current-year receipts	-	1,000,000
Conditions met - transferred to revenue	(499,440)	(494,196)
	6,364	505,804

To support the municipality with the Cascading of the Performance Management System (PMS) to employees below senior management (S57 Employees)

Water Services Infrastructure Grant (WSIG)

Balance unspent at beginning of year	9,536,614	-
Current-year receipts	20,000,000	30,000,000
Conditions met - transferred to revenue	(18,473,222)	(20,463,386)
WSIG: Repayment of unspent	(9,536,614)	-
	1,526,778	9,536,614

Conditions still to be met - remain liabilities (see note 13).

Facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and improve the sustainability of services in prioritised district municipalities, especially rural municipalities.

Provide interim, immediate water and sanitation supply that ensures provision of services to identified and prioritised communities, including through spring protection, drilling, testing and equipping of boreholes. Provide on-site sanitation solutions. Support the existing bucket eradication programme intervention in formal residential areas. Support drought relief projects in affected municipalities.

An amount of R 9 536 614 was off-set against the equitable share by the National Treasury.

Cogta (Pumpstation)

Balance unspent at beginning of year	2,551,363	2,551,363
Conditions met - transferred to revenue	(2,551,363)	-
	-	2,551,363

Conditions still to be met - remain liabilities (see note 13).

The purpose of the grant is to provide financial assistance to ELM for the construction of a new waste water treatment plant to bypass the existing one that is declared not financially viable to repair.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
22. Government grants and subsidies (continued)		
Cogta grant		
Balance unspent at beginning of year	893,724	893,724
Conditions met - transferred to revenue	(893,724)	-
	<u>-</u>	<u>893,724</u>

Conditions still to be met - remain liabilities (see note 13).

The purpose of the grant is to assist Emfuleni to finance the 90 days service delivery plan.

23. Fines

Traffic fines	199,414,260	347,217,750
Other fines	116,324	428,370
	<u>199,530,584</u>	<u>347,646,120</u>

In terms of IGRAP 1 the impact on the initial measurement of fines was assessed and appropriate adjustments based on assumptions were made from reliable information. The monetary value of fines as disclosed for 2017/18 was calculated from the value of fines issued less the fines withdrawn and, as granting of reductions are within the discretion of the entity issuing fines, these were deducted from the fines issued.

The debtor as disclosed in note 4 was calculated using the above assumption and the existing debtor as 30 June 2019.

Subsequent measurement was done by utilising reliable information from 7 years. The percentage payment of fines versus fines issued of the 7 years, was utilised to calculate the estimated recoverable fines for the period. The recoverable amount was deducted from the calculated outstanding as at 30 June 2019 resulting in the calculated impairment of fines.

In the event that the percentage payment of fines versus the fines issued for the year under review is higher than the average percentage payment of fines versus the fines issued for the past 7 years, the percentage payment of fines versus fines issued for the current year was utilised to calculate the recoverable amount.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
24. Employee related costs		
Basic salaries	599,801,392	586,635,778
13th cheque	46,810,345	44,900,372
Medical aid - company contributions	55,955,085	63,258,634
Unemployment insurance fund (UIF)	4,246,190	4,329,675
Redemption of leave	6,530,794	15,107,972
Long service awards and medical aid	5,906,593	4,724,100
Pension fund contribution	115,863,813	111,639,504
Overtime payments	89,562,266	76,260,983
Acting allowances	21,343,879	19,773,366
Car allowance	33,514,285	34,725,666
Housing benefits and allowances	4,061,164	3,924,519
Other allowance	13,891,202	12,162,910
Group insurance	36,644,697	36,737,367
Skills development and casualty contributions	8,986,454	9,076,959
	1,043,118,159	1,023,257,805

Municipal Manager

Annual Remuneration	434,946	326,210
Travel, motor car, accommodation, subsistence and other allowances	42,000	-
	476,946	326,210

The position of the Municipal Manager has been vacant for the full financial year however an incumbent has been seconded from CoGTA to act in the position.

Chief Financial Officer

Annual remuneration	599,413	-
	599,413	-

The position of CFO was vacant for the full financial year and an incumbent was appointed to act and then another incumbent was seconded from Provincial Treasury.

Executive Director: Shared Services

Annual remuneration	-	1,113,416
Travel, motor car, accommodation, subsistence and other allowances	-	193,500
Annual Leave	-	229,014
	-	1,535,930

The position of the Executive Director: Shared Services is vacant, and an incumbent was appointed to act in the position.

Executive Director: Public Works

Annual remuneration	-	-
Travel, motor car, accommodation, subsistence and other allowances	-	-
	-	-

The position of Executive Director: Public works is vacant and an incumbent was appointed to act in the position.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
24. Employee related costs (continued)		
Chief Audit Executive		
Annual remuneration	-	1,164,729
Travel, motor car, accommodation, subsistence and other allowances	-	147,150
Annual Leave	-	273,301
	<u>-</u>	<u>1,585,179</u>

The position of the Chief Audit Executive is vacant and an incumbent was appointed to act in the position.

Executive Director: Economic Planning & Human Settlements

Annual remuneration	-	1,379,379
Travel, motor car, accommodation, subsistence and other allowances	-	13,500
Annual Leave	-	163,024
	<u>-</u>	<u>1,555,903</u>

The position of the Executive Director: Economic Planning & Human Settlements is vacant and an incumbent was appointed to act in the position.

Executive Director: Community Services

Annual remuneration	-	1,194,594
Travel, motor car, accommodation, subsistence and other allowances	-	103,500
Other	-	50,908
	<u>-</u>	<u>1,349,002</u>

The position of Executive Director: Community Services is vacant, and an incumbent was appointed to act in the position.

Executive Director: Infrastructure Development

Annual remuneration	-	-
Travel, motor car, accommodation, subsistence and other allowances	-	-
	<u>-</u>	<u>-</u>

The position of the Executive Director: Infrastructure Development is vacant and an incumbent was appointed to act in the position.

Chief Operating Officer

Annual remuneration	-	1,506,682
Travel, motor car, accommodation, subsistence and other allowances	-	103,500
Annual Leave	-	333,565
	<u>-</u>	<u>1,943,747</u>

The position of Chief Operating Officer was phased out on 31 March 2018 when the extended contract of the previous incumbent expired.

Chief Risk Officer

Annual remuneration	1,090,338	1,419,785
Travel, motor car, accommodation, subsistence and other allowances	138,000	138,000
	<u>1,228,338</u>	<u>1,557,785</u>

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
24. Employee related costs (continued)		
Chief Information Officer		
Annual remuneration	-	965,337
Travel, motor car, accommodation, subsistence and other allowances	-	195,000
Annual Leave	-	179,106
	<u>-</u>	<u>1,339,443</u>

The position of the Chief Information Officer was phased on 31 March 2018 when the extended contract of the incumbent was expired.

Head of Revenue

The position for Head of Revenue is vacant and an incumbent was appointed to act in the position.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
24. Employee related costs (continued)		
Head Strategic Manager: Support		
Annual remuneration	-	652,435
Travel, motor car, accommodation, subsistence and other allowances	-	78,932
Annual Leave	-	109,547
	-	840,914

The position for Head Strategic Manager: Support was phased out on 31st January 2018 when the incumbent resigned from the position.

25. Remuneration of councillors

Mayoral Committee members	9,145,610	7,869,308
Councillors	57,052,998	47,365,038
	66,198,608	55,234,346

Mayor

Annual remuneration	1,002,903	815,158
Travel, motor, accommodation, subsistence and other allowances	241,311	368,979
	1,244,214	1,184,137

Speaker

Annual remuneration	657,538	633,345
Travel, motor, accommodation, subsistence and other allowances	317,022	306,537
	974,560	939,882

In-kind benefits

The Office of the Executive Mayor, Speaker and Mayoral committee members are full time positions. Each is provided with an office and secretariat support at the cost of the municipality.

The Mayor and Speaker make use of municipal owned vehicles for official duties.

26. Finance costs

Interest: external borrowings and creditors	357,567,696	109,012,771
Interest landfill site rehabilitation	18,163,840	12,895,507
interest post employee benefits: health care	11,599,293	12,329,000
Interest long service awards	6,537,860	7,687,000
	393,868,689	141,924,278

27. Bulk purchases

Electricity	1,571,066,423	1,645,978,985
Water	939,591,239	786,294,194
	2,510,657,662	2,432,273,179

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
28. General expenses		
Advertising	4,856,389	3,689,657
Audit fees	6,760,537	8,031,796
Bank charges	1,381,636	1,912,375
Commission paid	9,327,304	1,929,900
Bad debts written off	-	-
Hire	56,721,700	92,299,473
Insurance	57,838,614	60,722,986
Postage and courier	25,226,804	7,950,506
Printing and stationery	590,193	1,161,856
Software licensing	3,859,350	1,279,009
Telephone and fax	4,803,068	13,302,658
Uniforms	5,691,199	1,898,450
Indigent support	671,637,810	741,717,322
Departmental charges	4	-
Lease rentals	41,103,995	53,387,825
Other expenses	179,122,113	358,686,163
	1,068,920,716	1,347,969,976

"Other expenses" consist of various minor expenses.

29. Cash generated from operations

Deficit for the year	(617,107,179)	(662,108,727)
Adjustments for:		
Depreciation and amortisation	368,939,607	374,935,261
Fair value adjustments	(32,892,178)	(29,842,266)
Debt impairment	1,329,362,660	1,161,360,330
Employee benefit obligation	5,004,069	5,004,069
Contribution to provisions	9,335,537	12,895,507
Donations	(77,183,376)	(8,409,142)
Loss on sale of asset	23,582,654	2,634,989
Changes in working capital:		
Inventories	426,918	35,288,063
Trade and other receivables from exchange transactions	(1,135,937,447)	(650,775,954)
Other receivables from non-exchange transactions	(379,732,059)	(466,220,145)
Trade and other payables from exchange transactions	807,632,231	688,941,279
VAT	585,985	(124,646,149)
Unspent conditional grants and receipts	31,021,196	2,239,039
Decrease/Increase in current borrowings	518,702	442,802
Finance lease	(5,483,075)	974,945
Prior year correction	17,896,313	(570,950)
	345,970,558	342,142,951

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
30. Correction of error		
During the 2018/19 financial year the following adjustments were made to transactions whereby amounts were erroneously stated in the previous financial periods. The comparative amounts have been restated as follows:		
Balance previously reported 2016/17	8,770,788,529	
Adjustments for 2016/17 and before	(225,683,628)	
Restated balance for 2015/16	8,545,104,901	
Surplus/(deficit) for the financial year ended 2017/18	662,108,727	
Adjustments: 2017/18	23,742,769	
	9,230,956,397	
2016/17		
Statement of performance		
Heading		
Other income	20,000	
Donations	(275,727,232)	
Expenditure		
Contracted services	9,469,777	
(Loss)/gain on sale of assets	17,765,332	
Repairs & Maintenance	(50,610)	
General Expenses	7,483,814	
Depreciation	15,355,293	
Restatement for 2016/2017	(225,683,626)	
2017/18		
Statement of performance		
Heading		
Other Income	143,358	
Donations	(779,171)	
Expenditure		
Contracted Services	7,681,626	
(Loss)/gain on sale of assets	786,131	
Depreciation & Amortisation	11,937,598	
General Expenses	3,972,604	
Repairs & Maintenance	625	
	23,742,771	
2016/17		
Statement of Financial Position		
Current Assets		
Trade & Other receivables from exchange transactions	(16,419)	
Trade & Other receivables from non-exchange transactions	(1,365)	
Input Vat	299,238	
Non Current assets		
Property plant & equipment	381,600,779	
Accumulated depreciation	(8,411,940)	
Constructed work in progress	(141,864,305)	
Current Liabilities		
Trade and other payables	(2,925,936)	
Retention	(2,993,983)	
Non current liabilities		
Vat credit output accrual	(2,215)	
Finance Lease Liability	(227)	
	225,683,627	

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R		
2017/18				
Statement of Financial Position				
Trade & other receivables from non exchange transactions		647,674		
Trade & other receivables from exchange transactions		(61,582)		
Vat receivable		303,652		
Non current assets				
Property Plant & equipment		46,416,019		
Accummulated depreciation		(11,351,158)		
WIP Infrastructure		(50,252,917)		
Intangible Assets		(188,232)		
Current Liabilities				
Trade & Other Payables		(2,223,161)		
Advance Payments		(61,127)		
Retention		(6,971,937)		
		(23,742,769)		
Statement of financial position				
	Balance 2017/2018	Adjustments 2016/17	Adjustments 2017/18	Restated balance 2017/18
Cash and cash equivalent	67,452,861	-	-	67,452,861
Trade and other receivables from non-exchange transactions	274,526,418	(1,365)	647,673	275,172,726
Trade and other receivables from exchange transactions	308,769,124	(16,419)	(61,583)	308,691,122
Inventory	23,574,489	-	-	23,574,489
Value Added Tax receivable	311,844,669	297,022	303,652	312,445,343
Property,plant and equipment	10,261,036,603	231,324,535	(15,188,055)	0,477,173,083
Investment property	962,368,300	-	-	962,368,300
Intangible assets	23,330,932	-	(188,232)	23,142,700
Heritage Assets	57,016	-	-	57,016
Trade and other payables	(2,747,606,356)	(5,919,919)	(9,256,224)	(2,762,782,499)
Provision legal fees	(13,885,861)	-	-	(13,885,861)
Unspent Conditional Grants	(22,969,137)	-	-	(22,969,137)
Consumer Deposits	(51,309,073)	-	-	(51,309,073)
Finance Lease Liability	(3,421,511)	(227)	-	(3,421,738)
Provisions	(133,276,369)	-	-	(133,276,369)
Sanlam Shares	18,919	-	-	18,919
Finance Lease	(7,824,681)	-	-	(7,824,681)
Borrowings	(3,162,631)	-	-	(3,162,631)
Emoployee Benefit Obligation	(214,765,039)	-	-	(214,765,039)
Borrowings	(5,743,139)	-	-	(5,743,139)
	9,029,015,534	225,683,627	(23,742,769)	9,230,956,392

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
Trade and other receivables from exchange transactions		
Billing corrections resulting from levies for previous years in respect of services now corrected.		
Trade and other receivable from non-exchange transactions		
Billing corrections resulting from property rates and sundry levies not done in previous years now corrected		
Property, Plant & Equipment		
Projects that were under WIP are now completed and accounted for as PPE.		
Certain infrastructure assets that were capitalised in the previous years were derecognised.		
WIP		
Various transfers from WIP expensed as operational expenditure in the previous years now corrected.		
Projects that were under WIP were completed and removed from WIP.		
Accumulated Depreciation		
Depreciation on projects that were under WIP, now completed and accounted for as PPE..		
Depreciation on capitalised assets now accounted for.		
Trade & Other Payables		
Creditors not accounted for in the previous financial year now corrected.		
Retention		
Retention for projects completed in the previous years which was previous not accounted for, now corrected.		
Incidental cash Cash Surpluses		
Transfers received from members of the public without adequate information/references are receipted into the incidental cash surplus account until the member of the public queries that their deposit is not reflecting in their account.		
Revenue from developer created assets		
The following private entity developer created assets were accounted for:		
Cultural precinct: R 58 million		
Leeukuil waste water treatment works: R 80 million		
Pelindaba cemetery: R 9 million		
New Substation: R 3 million		
Forensic Investigations		
Various irregularities were investigated and related expenditure accounted for.		
Legal Cost and litigations		
Legal costs incurred in attending to illegal land invasions were accounted for.		
Repairs & Maintenance		

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
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Repairs & Maintenance done on various projects for electricity, water, waste water accounted for.

Gains & Looses

Certain infrastructure assets that were capitalised in previous years were derecognised, resulting in gains or losses.

Depreciation, Amortisation & Impairment

Changes in depreciation due to changes in remaining useful life of assets and derecognition of assets.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
31. Unauthorised, irregular, fruitless and wasteful expenditure		
Unauthorised expenditure		
Opening Balance	-	787,683,850
Unauthorised Expenditure	-	209,455,131
	-	997,138,981
Details of Unauthorised Expenditure		
Political Office	-	71,760
Financial Services	-	209,383,371
	-	209,455,131
Irregular		
Opening Balance	1,077,767,146	309,592,144
Irregular - Current year	357,501,430	367,634,122
Irregular - Prior Year	-	400,540,880
Less: Written off by council (2015/2016)	(148,503,808)	-
Less: Written off by council (2016/2017)	(161,088,336)	-
	1,125,676,432	1,077,767,146
Fruitless & wasteful expenditure		
Opening Balance	208,208,713	79,679,029
Fruitless & Wasteful Expenditure	357,567,696	128,529,684
Less: Written off by Council	(79,679,029)	-
	486,097,380	208,208,713
32. Additional disclosure in terms of Municipal Finance Management Act		
PAYE and UIF		
Opening balance	14,549,505	14,787,248
Current year subscription / fee	186,879,321	192,257,470
Amount paid - current period	(170,778,695)	(177,707,965)
Amount paid - previous years	(14,549,505)	(14,787,248)
	16,100,626	14,549,505

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019	2018
	R	R

32. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	Total R
Ndlovu MP	87,082
Mokoena ER	71,836
Mzongwane SL	67,680
Mkhwanazi OA	65,946
Nxongo NPG	51,696
Moerane MP	44,249
Msolo NJ	24,951
Mcasa AT	24,050
Maseko BP	21,453
Shabalala HH	16,390
Sinyanya SS	15,088
Motsei LA	14,817
Mollo DS	8,511
Nthebe MM	1,834
	515,583

30 June 2018	Total R
Ndlovu MP	89,973
Mokoena ER	77,050
Nthebe MM	63,602
Nxongo NPG	55,187
Mzongwane SL	53,301
Mkhwanazi OA	51,054
Msolo NJ	30,579
Khawe J	26,723
Shabalala HH	26,243
Motsei LA	25,375
Maseko BP	22,495
Mooi NJ	16,255
Mollo DS	8,834
Mcasa AT	8,012
Mashabela MS	7,243
Moshoaluba MJ	6,797
Von Bodenstein EK	4,768
Hlophe NC	4,765
Monyembane TT	2,661
Skosana MLM	95
Jantjie MB	62
	581,074

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
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33. Electricity and water distribution losses

Distribution losses relate to unaccounted for electricity and water losses. These losses arise mainly from illegal connections from both electricity and water networks, physical losses due to network operations and economical losses due to faulty meters. The total distribution losses are as follows:

Electricity

Kilowatt	409 258 598	872 285 812
Amount	368 332 737	785 057 231
Percentage	21.48%	43.72%

Water

Kiloliters	41 176 640	37 308 401
Amount	385 076 940	308 447 312
Percentage	41.2%	40%

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

34. Contingencies

Contingent assets

A contingent asset is a possible asset that arises from past events, whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events beyond the control of the municipality.

Contingent liability (civil matters)

Claim number	Description	Amount
1	Megazone - claim for damages	154,000,000
2	Vaal Show Society	80,000,000
3	AL Mphago Civil Construction	17,111,888
4	SALA Pension Fund	5,000,000
5	L Mnyandeni - delictual claim	2,000,000
6	Nurcha Development Finance (pty) Ltd	3,187,346
7	Ndaramawe	2,725,594
8	Inhlavuka Consult CC	2,419,156
9	Seriti Maluleke Attorneys	1,787,495
10	Primat Joint Venture	1,264,143
11	Du Preez	807,433
12	Radius Industrial-Compensation	670,750
13	Ramatshila Muger	512,508
14	Portwig Property Investmentb(pty) Ltd	390,000
15	Mokankgodumo	355,000
16	MT Teleko	230,000
17	M Mclean	200,000
18	Continental Outdoor Media (Pty) Ltd	100,000
19	K Rampororo	100,000
20	Bernard Fred Pieterse	60,000
21	I Macleod	50,186
22	J Mafale	50,000
23	MP Skosana - delictual claim	40,000
24	Darren Pather	38,475
25	AU Kingdom	34,097
26	C Viljoen	31,414
27	Dark Fibre Africa	31,414
28	C Parsons	30,000
29	E Coetzee	28,924
30	E Potgieter	26,997
31	CP Oosthuizen	26,352
32	M Moeti	22,157
33	G Ross	16,510
34	I Steffen	16,240
35	Q Jones	16,128
36	Eben Schoeman	13,967
37	SJ Botha	11,906
38	I Beukes	10,097
		273,416,177

Contingent liabilities (insurance)

During the 2018/19 financial year, the Municipality encountered insurance claims amounting to R 1 765 592

Notes to the annual financial statements

34. Contingencies (continued)

Contingent liability (labour)

There are a number of labour related cases that are still under conciliation, arbitration and review at labour court amounting to R 169 502 688.

35. Related parties

Section 56 managers
Councillors

Section 56 managers

Section 56 managers (management) received compensation as set out in note 24.

No remuneration was paid to families of Section 56 managers

Members of council

Members of council received compensation as set out in note 25.

No remuneration was paid to family members of council.

All councillors and employees have disclosed their financial interests.

36. Standards, Amendments to Standards and Interpretations issued but not yet Effective

The municipality applied the principles established in the following Standards of GRAP that have been issued but are not yet effective, in developing appropriate Accounting Policies dealing with the following transactions, but have not early adopted these Standards:

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
37. Employee benefit obligations		
Post retirement benefit plan		
Post-employment health care benefits		
Opening accrued liability	132,430,455	125,657,000
Current-service cost	935,159	965,000
Interest cost	11,599,293	12,329,000
Contributions (benefit paid)	(10,579,973)	(9,831,559)
Actuarial loss/(gain)	11,333,526	3,311,014
	145,718,460	132,430,455

The projected Unit Credit Method has been used to value the liabilities.

The main reasons for the actuarial gain can be attributed to the following factors:

These unexpected movements (otherwise termed Actuarial Gains and Losses) are separated into four main components: the effect of the change in the basis (assumptions), unexpected increases in the subsidies, unpredicted movements in the membership profile, and the effect of actual benefits vested being different from what was expected.

Key financial assumptions used

Discount rates used	8.80 %	9.12 %
Health care cost inflation rate	6.40 %	7.10 %
Net of health care cost inflation rate	2.26 %	1.89 %
Maximum subsidy inflation rate	4.43 %	4.95 %
Net of Maximum Subsidy inflation discount rate	4.19 %	3.97 %

Key Demographic assumption

Average Retirement Age	62	63
Pre retirement mortality	SA 85-90	SA 85-90
Post retirement mortality	PA(90) -1 with a 1% mortality improvement p.a. fom 2010	PA(90)
Withdrawal rate	see table A4.2	See table A4.2
Proportion with a spouse dependant at retirement	65%	95%
Continuation of mmbership at retirement	80%	100%

Withdrawal from service (sample annual rates)

Age	Females	Males
20	9%	9%
30	6%	6%
40	5%	5%
50	3%	3%
55	0%	0%

Discount rate

GRAP 25 defines the determination of the discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
--	-----------	-----------

37. Employee benefit obligations (continued)

Consequently, a discount rate of 8,8% per annum has been used. The corresponding index-linked yield at this term is 3,24%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 28 June 2019.

Health care inflation rate

A health care cost inflation rate of 6.4% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 4.90%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 2.26% which derives from $((1+8.80\%)/(1+6.4\%))-1$.

Average retirement age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill health and early retirements.

Mortality rates

Mortality post employment has been based on the PA(90) ultimate mortality tables.

Comparison with the preceding valuation

The section below compares the figures between the valuation dates and summarises the primary reasons for the changes in the liabilities since the last valuation

In-Service membership

Current (inservice) membership as at the valuation dates:

	Female	Male	Total
Number of in-service members	21	60	81
Average Age	53	55.2	54.7
Average past service	27.5	28.9	28.5

Continuation membership (pensioners' membership) as at the valuation dates:

	Female	Male	Total
Number of principal members	149	97	246
Average Age	75.4	74.2	74.9
Average number of spouse dependents	0.1	0.8	0.4
Average employer contribution	R 3 296	R 3 835	R 3 508

The projections assume that the municipality's health care arrangements and subsidy policy will remain as outlined and that no contributions are made by the municipality towards prefunding its liability via an off-balance sheet vehicle.

Valuation of assets

As at the valuation date, the medical aid liability of the municipality was unfunded, i.e no dedicated assets have been set aside to meet the liability. The municipality therefore did not consider any assets as part of valuation.

Long service awards

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
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37. Employee benefit obligations (continued)

The projected unit credit method has been used in the actuarial valuation of the liabilities. The valuation was performed by ARCH Actuarial Consulting.

Reconciling and projecting the unfunded accrued liability:

Unfunded Accrued Liability

Opening accrued liability	82,334,584	84,104,000
Current service cost	5,678,886	6,104,000
Interest cost	6,537,860	7,687,000
Benefit vestings	(10,884,421)	(5,312,321)
Actuarial loss/(gain)	(203,609)	(10,248,095)
	83,463,300	82,334,584

Net Liability to reflect on the Statement of Financial Position:

Net Liability	30 June 2019	30 June 2018
Opening balance	82,334,584	84,104,000
Current Service costs	5,678,886	6,104,000
Interest cost	6,537,860	7,687,000
Actuarial (gain)/loss	(203,609)	(10,248,095)
Employer benefit vesting	(10,884,421)	(5,312,321)
	83,463,300	82,334,584

The benefits paid figure above has been estimated based on the data provided by the municipality.

The Current-Service Cost reflects the additional liability that is expected to accrue in respect of in-service members' service over the corresponding year. The Interest Cost represents the accrual of interest on the Accrued Liability, allowing for benefits vesting, over the corresponding year. This arises because all future LSA benefits are one year closer to payment.

Assumptions

The most relevant actuarial assumptions used in this valuation are discussed below:

Key Financial Assumptions

Assumption	Assumed Value Current Valuation
Discount Rate	8.09%
General earnings inflation rate (long term)	5.51%
Net effective discount rate	2.45%

Discount rate

GRAP 25 defines the determination of the discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
--	-----------	-----------

37. Employee benefit obligations (continued)

Consequently, a discount rate of 8.09% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.09% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 2.95%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the JSE after the market close on 28 June 2019.

Normal salary inflation rate

This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the longterm, earnings inflation is between 1.0% and 1.5% above CPI inflation. The expected inflation assumption of 4.51% was obtained from the differential between market yields on index-linked bonds (2.95%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.09%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $((1+8.09\%-0.50\%)/(1+2.95\%))-1$. Thus, a general earnings inflation rate of 5.51% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 2.45%.

Average retirement age

The average retirement age for all active employees was assumed to be 62 years. This assumption implicitly allows for ill health and early retirements.

Normal retirement age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality rates

Mortality before retirement has been based on the SA 85-90 mortality tables, adjusted down for females.

38. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government Gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The above services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Description

Deviations	76,912,222	52,691,201
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Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
39. Budget differences		
Material differences between budget and actual amounts		
(a) Service Charges		
This is due to the water revenue which has reduced billings. The revenue has been adjusted downwards in a re-based budget in 2019/20.		
(b) Trade and other licenses		
More revenue was received during the financial year than anticipated.		
(c) Actuarial gain/loss		
This amount cannot be estimated at the beginning of the financial year and year-on-year.		
(d) Interest Income		
This is due to the high debtors book. The debtors book is also increasing year-on-year.		
(e) Other Income		
Less revenue than was anticipated was made from other income.		
(f) Property Rates		
This amount is influenced by the increasing value of properties and new developments. There was also a tariff increase of 5% for the year.		
(g) Donations		
This amount cannot be estimated at the beginning of the financial year and year-on-year.		
(h) Fines		
Less traffic fines were written out in 2018/19 than was anticipated. This line item is also provided for conservatively since the collection rate is low.		
(i) Imputed interest		
This is an interest calculation on over-due creditors. It is dependent on creditors which are outstanding for the financial year.		
(j) Loss on disposal of assets		
This is uncontrollable. Council made a loss on the sale of assets for the year.		
(k) Grants & Subsidies		
The difference is due to unspent grants which could not be recognised as revenue and the subsidies amounts which did not fully realise. The Social Development Grant was also reduced by R10.5 million by the Grantor Department.		
(l) Councillor Remuneration		
Medical aid benefits of retired Keyhealth Medical Aid of about R9 million were paid from a vote which aggregates under Councillors Allowances. The line item will be fixed during the 2019/20 adjustments budget.		
(m) Finance Cost		

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019	2018
	R	R

39. Budget differences (continued)

This is due to interest on outstanding creditors for the year mainly Eskom and Rand Water accounts.

(n) Debt Impairment

Debt impairment of R 1.3 billion was charged in 2018/19 for the financial which is higher due to the increasing debtors balances.

(o) Bulk Purchases

The budgeted amount in 2018/19 was adjusted downward by an amount of R200 mil which was to be saved from distribution losses interventions.

(p) Fair value adjustment

This is uncontrollable. The value of assets were assessed at higher value.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
39. Budget differences (continued)		
(q) Cash and cash equivalents		
This includes call deposits on grants which were not fully spent at year end. It was anticipated that all will be spent at the time of budgeting.		
(r) Other receivables from non-exchange transactions		
Receivables are less than budgeted due to the provision for bad / doubtful debts. Please refer to the relevant note for the movement thereof and the movement in the provision for bad debts.		
(s) Value added tax receivable		
The value added tax receivable / payable is not known at the time of budgeting.		
(t) Sanlam shares		
Provision was not made for the Sanlam investment in the budgeted Statement of Financial Position.		
(u) Trade and other payables from exchange transactions		
More expenditure was incurred which was accrued at year-end due to cash flow constraints. The liability was anticipated to be less at the time of budgeting.		
(v) Unspent conditional grants and receipts		
It was planned that all conditional grants would be spent by the end of the financial year which did not realise.		
(w) Borrowings		
It was anticipated that the short-term borrowings would decrease from the 2017/2018 financial year after payments are made in the 2017/18 financial year.		
(p) Provisions		
The budget amount is based on the performance as at mid-term.		
(x) Inventory		
The budget amount is based on performance at midyear.		
(y) Consumer deposits		
Less consumer deposits were provided for in the budgeted statement of position.		
(z) Employee benefit obligations		
The budgeted provisions amount includes employee benefit obligations below which when factored in results in a variance of -4% which is not material		

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
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40. Risk management

Capital risk management

The capital structure of the municipality consists of debt, which includes the borrowings, cash and cash equivalents, and equity.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Financial risk management

The municipality's activities expose it to a variety of financial risks, credit risk and liquidity risk.

Risk management is carried out under policies approved by the accounting officer. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

Credit risk

The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Consumer debtors comprise of a large of rate payers, dispersed across different industries and geographical areas. Consumer debtors are presented net of provision impairment. In the case of debtors whose accounts become in arrears, it is endeavored to collect such accounts by levying of penalty charges, demand for payment and as a last resort handed over for collection, whichever procedure is applicable in terms of Council's credit control and debt collection policy.

Trade and other receivables from non exchange transactions	347,322,862	275,172,727
Trade and trade receivables from exchange transactions	422,847,834	308,691,122
Short term investment deposits	136,501,159	33,503,306
Cash and cash equivalents	80,991,537	33,949,555
	987,663,392	651,316,710

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the municipality maintains flexibility in funding by maintaining availability under committed credit lines.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Management plans to maintain adequate cash flows by alternative means such:

- disposal of assets
- Investigating other revenue enhancement possibilities and
- improving debt collection

to ensure that funds will be available to finance future operations and that realisation of assets and settlements of liabilities, contingents and commitments will occur in the ordinary course of business.

41. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

We draw attention to the fact that at 30 June 2019, the municipality had a deficit of R 623 802 527, however the municipality's total assets still exceed the total liabilities by R 8 607 153 851.

Background and mitigating factors.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

	2019 R	2018 R
41. Going concern (continued)		
<p>The Emfuleni Local Municipality has undeniable challenges in relation to the identified key areas of support, namely financial, institutional, infrastructure and service delivery.</p> <p>In assessing whether the the going concern basis is appropriate, management considered a wide range of factors surrounding current and expected performance, expected short and medium term economic environment in which the municipality operates, potential estimates of revenue, the power to levy rates and taxes.</p> <p>Huge challenges with respect to cash flow status, largely due to the poor revenue collections, attributable to the high unemployment (61%) and poverty levels in the region were experienced during the past financial years. More worrying is that 63% of Emfuleni's population earns less than R3, 300 per month. The average collection rate of the municipality is standing at 64%.</p> <p>For all intents and purposes the Emfuleni Local Municipality has structural economic challenges and resultant financial distress but it is not a dysfunctional municipality and to management's opinion the following mitigating factors have be implemented and are present to reduce the risk of the going concern assumption not being valid:</p> <p>The municipality has adopted the four(4) pillars turnaround strategy in addressing going concern issues experienced by the municipality. These pillars are: a) Improve collection, b) Reduce distribution losses, c) Saving on expenditure and d) Credible indigent register.</p> <p>Provincial Treasury has established the Emfuleni Support Team(EST) in collaboration with Sedibeng District Municipality(SDM) and Emfuleni Local Municipality to address amongst others cash flow and service delivery challenges.</p> <ul style="list-style-type: none">the municipality managed to comply with all capital, statutory and regulatory requirements;no whole or substantial part of the operations been discontinued;no significant problems been experienced with bad debts resulting and considering the collectability of debtors in the region, the municipality can reasonably expect to survive in the future as a going concern due to the following key deliverables: <p>Enhanced revenue capabilities of the municipality</p> <ul style="list-style-type: none">Revision of the Revenue Protection and Enhancement Strategy;Enhanced revenue value chainEnhanced comprehensive Credit Control and Debt Management Policythe municipality's fixed costs (e.g. salaries, rent and leave payments) can be reasonably covered by the income receivedthe income received does not exceed the operating cost of the services;the municipality is able to comply with loan agreements and finance lease agreementsThe municipality has entered into payment agreements with both Randwater and Eskom, and various undertakings made with respect to reducing the bulk supply needs of the municipality from the current levels to more reasonable and affordable levels that the municipality can manageThe municipality has adopted a comprehensive Financial Recovery Plan. Progress made on the strategies identified is submitted to council as well as Provincial Treasury on a monthly basis. All effort is put in place to ensure strict adherence.		
42. Other financial assets		
43. Commitments		
Council had the following Commitments as at 30 June 2019		
Capital Expenditure		
<ul style="list-style-type: none">Approved and contracted for Property, Plant & Equipment	165,537,157	276,797,691

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the annual financial statements

44. Operating lease

Operating leases - municipality as a lessor - property

- within one year	1,115,905	1,087,422
- in second to fifth year	2,928,901	4,059,568
	4,044,806	5,146,990

Operating leases - municipality as a lessee - property

-within one year	8,546,466	8,024,851
- in second to fifth year	15,427,347	23,973,814
	23,973,813	31,998,665

45. Self - insurance reserve

Opening balance	-	2,139,552
Expenditure	-	(2,139,552)
	-	-

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2019